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Auditor General

Annual Report

*To the
Legislative
Assembly of
British Columbia*

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Legislative Assembly
Province of British Columbia

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The Honourable Melville B. Couvelier
Minister of Finance and Corporate Relations
Province of British Columbia

Sir:

I have the honour to transmit herewith my Annual Report to the Legislative Assembly, to be laid before the Assembly in accordance with the provisions of Section 10 of the Auditor General Act, R.S.B.C. 1979, chapter 24.

George L. Morfitt

George L. Morfitt, F.C.A.
Auditor General

Victoria British Columbia
April 10, 1989

Annual Report of the Auditor General

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Auditor General's Overview

Auditor General's Overview

This 1989 Report is the 11th Annual Report to be issued by my Office, and comes at the close of my first year as Auditor General for the Province.

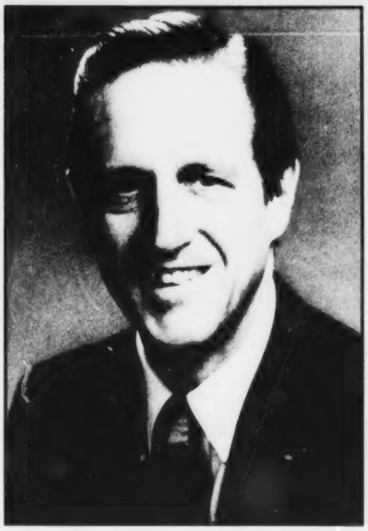
As an officer and servant of the Legislative Assembly, I am given the responsibility to regularly examine the accounts and records of the Government, and to provide my audit opinion on the annual financial statements of the Province. I am also to report any significant errors, inadequacies, or improprieties relating to the Government's stewardship of public resources, that may come to my attention in the course of my audit work. Additionally, I am authorized to provide my assessment of the Government's stated accounting policies, and of the extent to which ministry programs are being administered economically and efficiently.

My Annual Report to the Legislative Assembly serves to provide legislators and the public with a synopsis of the work of my Office over the past 12 months. It includes observations, recommendations, and opinions on various aspects of government accounting, reporting, and administration of public resources. References to specific situations are combined with more general discussions of broader issues for the purpose of promoting those improvements to government processes which I consider would be both desirable and beneficial.

Following is a brief overview of the contents of this Report.

Part I

Part I of this Report includes comment on all of those matters which directly relate to my audit of the annual financial statements of the Government and of the various public bodies of which I am the auditor.



There has, over the years, been substantial improvement in both the form and content of the Province's financial statements. These statements, particularly those prepared on a consolidated basis, are generally regarded as being in the forefront of financial reporting by the senior levels of government in Canada.

I do have concern, however, that a new set of statements, reflecting transactions of the General Fund alone and not the whole of the Consolidated Revenue Fund, is now being presented in various government publications as the Government's main financial statements. I believe it important to recognize that it is the Consolidated Revenue Fund, incorporating the General Fund and all Special Funds, which is established by legislation as being the Fund through which all public monies, other than trust funds, are to be received and paid.

Included in this year's Annual Report is advice as to the current status of those outstanding audit recommendations of prior years which relate to the Government's financial statements. This information is presented in summary form, except for those items I have determined should be considered in greater detail elsewhere in my Report. With some exceptions, I am able to report positive action by the Government in response to these matters.

Also provided in Part I are reports on five internal control reviews conducted by my Office during the year. These reports summarize the findings and recommendations resulting from our review of a limited number of the many internal control systems operating within government ministries.

In recent years, the Auditor General's Annual Report has included written comment received from the Government in response to our value-for-money (comprehensive) audit observations of various government programs. This year's Report expands on this process, incorporating comments from government ministries on each of the internal control reviews conducted by my Office during the year. Included, as well, are follow-up ministry responses to the internal control reviews and value-for-money audits covered in my 1988 Annual Report.

This publication of government responses to audit issues serves to provide timely information as to the Government's actions and intentions in addressing matters brought to its attention as a result of the work of my Office.

Part II

Part II provides background as to the value-for-money audits carried out by my Office. These audits provide independent assessments of the economic and efficient employment of public resources in the administration of various government programs, and of the extent to which information regarding accountability for these programs is provided to the Legislative Assembly and to the public.

This year, my Office conducted a review of the Government's privatization initiative. The results of our review are presented in four reports: the first deals with the process designed for ministries to follow in privatizing their programs, while the other three examine specific privatization transactions. We indicate some value-for-money concerns as to the generic process followed, and also in regard to the early privatizations examined. However, similar audit concerns did not arise in our review of two or more recent transactions on which we have reported.

Also, during this year, we undertook value-for-money audits in the Ministry of Health. Four programs were examined in depth: hospitals, the medical services plan, continuing care, and public health. In general, in the areas reviewed, we found that the Ministry had taken steps to control total program costs and had compared these costs in British Columbia with other jurisdictions. At the same time, we felt that the determination of cost-effectiveness of the programs could, and should, be strengthened.

As I have previously mentioned, I consider it important that my Office be an agent for promoting improvement in government management and accountability. I believe that our conduct of these value-for-money audits will serve to further this objective.

Part III

My Office has conducted studies of three other matters of interest: control of government spending by the Legislative Assembly, recent initiatives within the Ministry of Transportation and Highways, and the management of Government employee leave entitlements. These studies are reported upon in Part III of this Report.

The purpose of our audit of legislation governing public spending, and of spending information provided to the Legislative Assembly, was to determine whether the Assembly had a proper basis for exercising effective control over government expenditures. Our overall conclusion was that, while many of the key elements of control are in place, the basis for the Legislature's control over the public purse is not as effective as it could, or should, be.

Last year, I advised of my intention to conduct a value-for-money audit of the Ministry of Transportation and Highways in 1989. In anticipation of that audit, my Office has conducted an interim review of action taken to date by the Ministry in those areas of deficiency identified in the 1987 Commissioner Inquiry report. Our findings indicate that the Ministry has taken considerable action to correct those deficiencies.

The management of government employee leave entitlements, first discussed in the 1982 Auditor General's Report, has been revisited this year as a separate Part III study. It will be noted from our review that a satisfactory leave management system has yet to be implemented, despite the incurring of significant costs in an effort to so do.

Part IV

Part IV of this Report provides information as to the mandate, mission and administration of my Office. In it are described my responsibilities to the Legislature, and the means employed to ensure that those responsibilities are properly discharged.

I wish to thank all of the officers and staff of the ministries and public bodies audited by my Office for their cooperation and assistance. We were provided with all of the information and explanations we required in the conduct of our work. I also wish to express my sincere appreciation to the staff of my Office for their continued, unfailing commitment to the principles of integrity, objectivity and service to the public.

George L. Morfitt

George L. Morfitt, F.C.A.
Auditor General

Victoria, British Columbia
March 30, 1989

Part I: The Public Accounts

Part I: The Public Accounts

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The Public Accounts

This Part of the Auditor General's Annual Report deals with the Public Accounts of the Province of British Columbia. It contains comments and observations about the financial statements of the Government for the fiscal year ended March 31, 1988, and is based on audit work conducted in accordance with the requirements of the *Auditor General Act*. It also refers to audits of the financial statements of various Crown corporations and other public bodies, in particular those for which the Auditor General is the appointed auditor.

Contents of the Public Accounts

The Public Accounts are the documents that contain the audited financial statements of the Government, as well as other information that is presented to the Legislative Assembly to show compliance with various statutory authorities.

Under the provisions of the *Financial Administration Act*, Treasury Board establishes the form and content of the Public Accounts, as well as the accounting policies of the Government. The Act also requires the Comptroller General to prepare the Government's financial statements for each fiscal year ending March 31, in accordance with these policies.

The Public Accounts are published in three volumes:

Volume I contains an explanatory introduction, followed by the audited financial statements of the Government and the unaudited supplementary schedules. Also included are the unaudited details of expenditure by ministerial appropriations, statutory appropriations, and special fund and account transactions.

Volume II is composed of detailed schedules of salaries, wages, travel expenses, and other payments made by the Government during the fiscal year. This reporting, while not explicitly required by legislation, is a helpful part of the accountability process and an aid to suppliers of goods and services to government. The Auditor General does not specifically examine or express an opinion on the data contained in this volume of the Public Accounts.

Volume III provides the separate audited financial statements of various Crown corporations, other government agencies, and certain pension and other trust funds.

In addition to these three volumes, the Government publishes the *Public Accounts Digest*. This digest gives a descriptive summary of the Government's finances, as detailed in the Section A and Section B financial statements contained in Volume I of the Public Accounts. It is intended to assist the public in understanding the financial results of government operations.

The Government's Financial Statements

In Volume I of the Public Accounts, the Government has published three sets of audited financial statements for the fiscal year ended March 31, 1988. The following description of these statements is included in the Introduction to the Public Accounts:

Section A

General Fund, and Special Funds Converted to Special Accounts on March 31, 1988 - these statements contain the operating activities of the Government including special accounts and special funds which were converted to special accounts on March 31, 1988.

Section B

Combined Financial Statements - these statements include the accounts of the Consolidated Revenue Fund, combining the activities of the General Fund (main operating account and special accounts), with funds earmarked for specific purposes, Special Funds.

Section C

Consolidated Financial Statements - these statements have been prepared to disclose the economic impact of the Government's activities. They aggregate the Consolidated Revenue Fund and certain Crown corporations: namely, those Crown corporations which exist to serve the Government ("service" corporations) and those Crown corporations which conduct Government programs ("provincial" corporations). Crown corporations which are intended to be run on commercial lines are recorded on an equity basis.

Figure 1.1 illustrates the relationship among the three sets of financial statements. Further comments on the form and content of these statements and the results of our audit work appear in subsequent sections of this Annual Report.

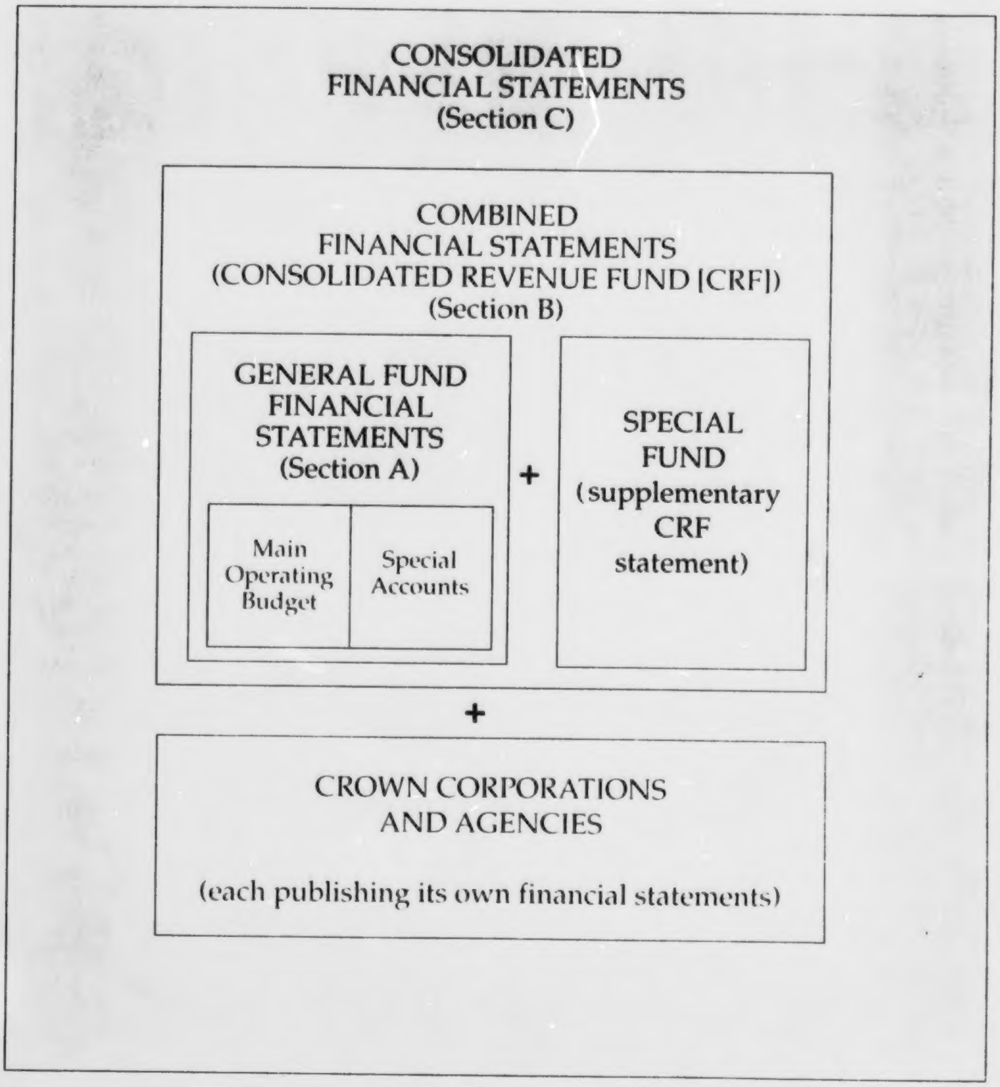
CONSOLIDATED FINANCIAL STATEMENTS (Section C)
COMBINED FINANCIAL STATEMENTS (CONSOLIDATED REVENUE FUND [CRF]) (Section B)
GENERAL FUND FINANCIAL STATEMENTS (Section A)
Main Operating Budget
Special Accounts
+
SPECIAL FUND (supplementary CRF statement)
+
CROWN CORPORATIONS AND AGENCIES
(each publishing its own financial statements)

FIGURE 1.1

The Government's Financial Statements

Note:
Sections A, B and C refer to Sections in Volume I of the 1987/88 Public Accounts

Audit of the Government's Financial Statements

Auditor General's Mandate

The Auditor General is required, under the provisions of Sections 6 and 7 of the *Auditor General Act*, to examine the accounts and records of the Government and to report annually to the Legislative Assembly on the Government's financial statements. In his report, the Auditor General must state whether, in his opinion, the statements present fairly the financial position and operating results of the Government in accordance with its stated accounting policies, and whether such policies are consistently applied. If he is unable to express this opinion without reservation, he is required to state the reasons why.

Purpose and Value of the Audit

The Government's financial statements serve the interests of a wide variety of users, including legislators, the general public, investors, and analysts. To achieve its purpose fully, the financial information in the statements must be viewed by these users as being credible. The audit process, culminating in the Auditor General's Report on the Government's financial statements, helps assure the users of those statements that the information is reliable. Also, the audit ascertains, with respect to transactions examined, that relevant legislation and regulations governing the administration of public funds have been complied with.

Furthermore, the very existence of an annual independent audit has a salutary effect on the reliability of accounting work and financial control systems throughout government.

The Audit Process

The Auditor General, through the work of his staff, carries out an extensive examination of the accounts and records maintained by the various ministries and central agencies of government. This examination is conducted in accordance with "generally accepted auditing standards", as prescribed by the Canadian Institute of Chartered Accountants (CICA). These standards relate to the professional qualities of auditors, the performance of their examinations, and the preparation of their reports. In addition to these general standards, the Auditor General recognizes, in the conduct of his work, the various recommendations made by the Public Sector Accounting and Auditing Committee of the CICA.

Results of the Audit

As a result of the examination carried out, the Auditor General has been able to provide audit opinions, without reservation, on the three sets of financial statements presented by the Government for the fiscal year ended March 31, 1988. However, in the process of carrying out this examination, numerous matters are brought to light which also call for review and corrective action by ministries and central agencies. These are dealt with through direct contact with the officials concerned. As well, certain of these matters are considered to warrant the attention of the Legislative Assembly, and are included in the Auditor General's Annual Report. These fall into three broad categories:

- the Government's accounting policies, and the manner in which it reports its financial condition and operating results;
- specific accounting and compliance matters that arise in the course of the audit work; and
- the results of the examinations of selected systems of internal control.

Reports containing the Auditor General's audit opinions, together with the financial statements to which they relate, appear in Appendix G to this Report. Our comments on the other matters we believe should come to the attention of the Legislative Assembly follow.

Comments on the Government's Financial Statements

The Government's Choice of Financial Statements

The Government's financial statements are the principal means by which it accounts to the Legislative Assembly and the citizens of British Columbia for its stewardship of the public purse. These documents are intended to provide a summary record of annual revenues and expenditures, and to reflect the financial health of the Province at a point in time.

To be of value to their many users, financial statements must be clearly identified, easily understood, and prepared on a consistent basis from year to year.

In recent years, the Government has presented, in the Public Accounts, two sets of financial statements that relate to government operations: the Combined Financial Statements and the Consolidated Financial Statements. A third set of published statements, the Trust Funds Financial Statements, was discontinued in the 1988 fiscal year.

The **Combined Financial Statements** have been the main statements of the Government. They encompass all the activities and transactions of what is known as the Consolidated Revenue Fund. Many people consider that the annual surplus or deficit reflected in these statements is the most important figure reported by the Government. The Consolidated Revenue Fund, which is established by the *Financial Administration Act*, is made up of the General Fund and all Special Funds operated by the Government. It has traditionally been a key component of the accountability process in that all public money, other than trust funds, is required to be paid into it, and no money may be paid out of it without an appropriation authorized by the Legislative Assembly. This concept forms the basis for legislative control of public funds in most senior governments in Canada.

The **Consolidated Financial Statements,** developed by the Government in 1981, bring together the operating results of the Government and various Crown corporations and agencies. The Auditor General commended the introduction of this progressive innovation because it provided additional information on the economic impact of the Government's activities beyond those reflected in the Combined Financial Statements. It was also in line with emerging trends in government financial reporting.

The Auditor General has, for some time, suggested that the Consolidated Financial Statements be presented as the main financial statements of the Government. Until this year, however, the Government had considered the Combined Financial Statements to be its main statements, particularly in reference to government surpluses, deficits, and financial position.

For the fiscal year ended March 31, 1988, the Government made a significant change in its financial reporting. It created a new set of financial statements titled **General Fund, and Special Funds Converted to Special Accounts on March 31, 1988** (General Fund financial statements). These statements are a subset of the information contained in the Combined Financial Statements. The difference between the two sets of financial statements is that the new statements exclude the transactions and year-end balance of the new Special Fund created during the 1988 fiscal year, the Budget Stabilization Fund.

The Government does not state in the Public Accounts which statements are its main financial statements. However, the placement of the new General Fund financial statements in the first section of the Public Accounts (Section A), preceding the other two sets of statements, and references in official publications and pronouncements, suggest that they are the main statements.

The 1988 budget speech, for example, highlighted the transactions and deficit balances of the General Fund rather than of the Consolidated Revenue Fund. As well, the *Financial and Economic Review* issued by the Ministry of Finance and Corporate Relations in October 1988 states, in a reference to the Government's accounting policies, that ". . . the main reporting entity for 1987/88 is the General Fund . . . ." That Review also contains only one set of financial statements for the fiscal year ended March 31, 1988, referring to them as "the preliminary unaudited financial statements of the government." The statements presented in the Review are essentially the same as the General Fund statements contained in Section A of the Public Accounts, with one unusual exception: the balance sheet presented is that of the Combined Financial Statements appearing as Section B of the Public Accounts. No explanation is offered in the Review for this aberration.

The impact of this change in emphasis is significant. Had the Government continued to treat the Combined Financial Statements as its main financial statements, the "Net Expenditure for the Year" (i.e., the deficit) would have been reported as $48,028,000 (per page B6 of the Public Accounts). Instead, by referring to the Section A statements as its main financial statements for the 1988 fiscal year, the Government has reported a net expenditure for the year of $790,933,000 (per page A6 of the Public Accounts). The additional General Fund deficit of $742,905,000 represents transfers from the General Fund to the Budget Stabilization Fund. As these two Funds together constitute the Consolidated Revenue Fund of the Government as at March 31, 1988, transfers between the Funds offset one another and are eliminated from presentation in the Combined Financial Statements.

Nothing in these comments is intended to imply that any set of these financial statements is incorrect. The notes to each set of statements clearly describe, in the "Significant Accounting Policies" section, what the statements are meant to portray. The Auditor General has examined these financial statements, and has expressed his unqualified opinions on them.

However, for the reasons described above, we are concerned that financial statements portraying less than the whole of the Consolidated Revenue Fund are being presented and referred to in various Government publications as the Government's main financial statements.

We recommend that the Government reconsider its method of presenting its financial position and operating results. While we still believe that the Consolidated Financial Statements best reflect the overall financial position of the Government, at the very least, the Government's reporting to the Legislative Assembly on its stewardship of public resources should clearly reflect the significance of the Consolidated Revenue Fund as portrayed in the Combined Financial Statements.

Trust Funds Reporting in the Public Accounts

For the five years before the 1988 fiscal year, the Government included in its annual Public Accounts a set of financial statements entitled "Trust Funds." Although the issuance of Trust Funds statements is not required by the *Financial Administration Act,* the statements provided information about assets which are held and administered in trust by the Government, but over which it has no power of appropriation.

Several aspects of the form and content of these statements have been the subject of unresolved discussion between this Office and government officials. Matters of concern have included the following items. These have been commented on in each of the last three Annual Reports of the Auditor General.

- The Trust Funds financial statements have included sinking funds established by the Government for its own debt issues, presumably as it is considered that those sinking funds are held for the benefit of third parties, and are funds over which the Government has no power of appropriation. However, British Columbia has been unique among provinces in Canada in treating sinking funds, for its own debt, both as its own assets (by deducting the sinking fund assets from debt on its provincial balance sheet), and as assets held in trust (by including the same assets in its statement of trust funds).

- Two categories of trust funds were established for financial accounting purposes: actively managed funds and custodial deposits. For custodial deposits, no reporting of the changes in fund balances from one fiscal year-end to the next had been provided in the statements. On the other hand, this information was provided for actively managed funds. We consider three significant trust funds to have been incorrectly categorized as custodial deposits rather than actively managed funds, resulting in incomplete financial disclosure and public accountability for the overall stewardship of funds held in trust by the Government.

In November 1988, the Public Sector Accounting and Auditing Committee of the CICA issued a statement of accounting standards for the public sector in Canada, entitled "Defining the Government Reporting Entity." This statement recommends that governments disclose, in a note or schedule to government financial statements, a description of trust funds under administration, and that they also provide a summary of trust fund balances.

For the 1988 fiscal year, such a disclosure has been made in a note to each of the Government's three sets of financial statements (see the Public Accounts, Volume I, Section A [note 17], Section B [note 17], and Section C [note 16]). Furthermore, although the Trust Funds financial statements are no longer presented, a schedule of year-end trust fund balances has been published in Section G of Volume III of the Public Accounts.

We generally concur with these changes the Government has made in the form of information disclosure for trust funds under administration. The expanded note to each of the Government's audited financial statements, together with the summary of trust fund balances in Section G, provides appropriate year-end summary information in addition to the detail included in each trust fund financial statement published in Volume III of the Public Accounts.

The amended form of disclosure also eliminates our previously stated concerns as to the appropriate categorization and presentation of trust funds for financial statement purposes.

Timely Issuance of the Public Accounts

Financial information is most relevant when published on a timely basis. The Government recognizes this by issuing its annual Financial and Economic Review each fall using preliminary unaudited financial figures, rather than delaying the Review until final audited financial statements are available.

The Public Accounts containing the Government's final audited financial statements, however, are generally not released until the following spring sitting of the Legislature.

The *Financial Administration Act* requires that the financial statements of the Government for each fiscal year be transmitted by the Comptroller General to the Treasury Board and the Auditor General by September 30 next after the end of the fiscal year. These financial statements, together with the Auditor General's reports on them, form part of the Public Accounts which must be tabled in the Legislative Assembly by December 31, if the Assembly is then sitting, or otherwise within 15 sitting days after the opening of its next sitting. The Act is silent as to whether the Public Accounts may be made public prior to their tabling in the Legislative Assembly.

Normally, the Public Accounts are completed and available for issuance by December of each year. However, unless the Assembly is then in session, tabling and issuance of the Public Accounts do not take place until the next spring sitting. Only once since the establishment of the Office of the Auditor General in 1977 have the Public Accounts been tabled and made public before the spring sitting. That was when the Public Accounts for the 1987 fiscal year were tabled on December 17, 1987.

Since the Public Accounts contain important accountability information, we feel that their early availability to the Members of the Legislative Assembly and to the public would be in the public interest. Accordingly, we encourage the Legislative Assembly to examine the present practice with respect to the issuance of the Public Accounts, and to consider the benefits of an earlier date of issuance to legislators and the public.

Use of Special Funds

In recent years, the Legislative Assembly has established special purpose funds (Special Funds) to provide an accounting, separate from the General Fund of the Province, for a variety of government programs and projects. The General Fund and any existing Special Funds together make up the Consolidated Revenue Fund.

On March 31, 1988, pursuant to an Act of the Legislative Assembly, all Special Fund assets and liabilities, except those relating to the newly created Budget Stabilization Fund, were transferred to Special Accounts within the General Fund. These transfers, relating to 11 discontinued Special Funds, totalled $245,705,194. They left the Budget Stabilization Fund balance of $742,905,000 as the only Special Fund balance existent at the 1988 fiscal year-end.

The Budget Stabilization Fund

In his 1988 budget speech to the Legislative Assembly, the Minister of Finance and Corporate Relations announced the Government's intention to create two new Special Funds—a Budget Stabilization Fund and a Privatization Benefits Fund—for the purpose of helping the Government achieve three fiscal policy goals: elimination of the current deficit, reduction of accumulated debt, and stabilization of revenue.

The Privatization Benefits Fund did not come into existence until the 1989 fiscal year, so our following remarks pertain only to the Budget Stabilization Fund.

Regarding the new Budget Stabilization Fund, the Minister had the following comments:

> Due to the boom or bust nature of the British Columbia economy government revenues have been difficult to predict. Long range financial planning, while desirable, was an unrealizable ambition. Certainty is needed for any planning exercise—whether in the private or public sector.

> The new Budget Stabilization Fund will assist in addressing this problem. In years when revenues peak sharply, transfers will be made to the Fund. In years of revenue shortfall, transfers will be made from the Fund. Our objective will be to avoid borrowing or cutting back social programs.
>
> As a result of our extraordinary revenue performance during 1987/88, I will transfer $450 million into the Budget Stabilization Fund. This includes $13 million in surplus lottery funds and in future years, I will transfer other surplus lottery funds to the Budget Stabilization Fund.

The *Budget Stabilization Fund Act* received Royal Assent on May 30, 1988, and was deemed to have come into force on March 31, 1988.

The Act states that the purpose of the Fund is to assist the Government in stabilizing its operating revenues. The Minister of Finance and Corporate Relations may pay monies into and out of the Fund as approved by the Lieutenant Governor in Council, consistent with the Fund's purpose. Earnings of the Fund become part of the Fund, and all payments from the Fund are to flow directly to the General Fund. The Act further provides for the transfer to the Fund on March 31, 1988, of the balance in the Lottery Fund at that date.

On the day of the 1988 budget speech (March 24), the Government anticipated realizing, for the 1988 fiscal year, actual revenues and expenditures in excess of those originally estimated of $551 million and $51 million, respectively. It proposed to use $101 million of the additional revenue both to offset the $51 million of overexpenditures and to reduce by $50 million the budgeted 1987/88 deficit of $850 million. The remaining $450 million of added revenue, inclusive of surplus lottery funds, was to be transferred to the new Budget Stabilization Fund.

As reflected in the Public Accounts, 1987/88 revenues were in fact significantly higher than anticipated, while expenditures were well below original estimates. As a result, the Consolidated Revenue Fund realized a net operating deficit for the year of $48,028,000, and a total of $742,905,000 was transferred from the General Fund to the Budget Stabilization Fund within the Consolidated Revenue Fund. Figure 1.2 summarizes the estimated and actual transactions of the Consolidated Revenue Fund for the fiscal year ended March 31, 1988. A balance sheet and statement of revenue and expenditure of the Budget Stabilization Fund has been included in the 1987/88 Public Accounts as a supplementary statement (B37) to the Combined Financial Statements.

FIGURE 1.2

Consolidated Revenue Fund
Fiscal Year Ended March 31, 1988

(In Thousands)

	Original Estimates	Revised Forecast in the March 1988 Budget Speech	Actual Per Public Accounts
Total revenue	$ 9,370,000	$ 9,898,000[a]	$10,087,377
Total expenditure	10,220,000	10,248,000[a]	10,135,405
Net operating expenditure (deficit) for the year	$ (850,000)	$ (350,000)	$ (48,028)
Net (deficit) surplus by funds:			
General Fund, and Special Funds other than the Budget Stabilization Fund	$ (850,000)	$ ($800,000)	$ (790,933)
Budget Stabilization Fund	—	450,000	742,905
	$ (850,000)	$ (350,000)	$ (48,028)

(a) Excluding business (school purpose) property tax and Medical Services Plan premium revenues, and related expenditures, not included in the Consolidated Revenue Fund accounts before the 1989 fiscal year.

Special Funds Becoming Special Accounts: The Effect of the Transfer

Special Funds are separate accounting entities within the Consolidated Revenue Fund of the Province. They each may have assets, liabilities, revenues, expenditures, and a fund equity distinct from the General Fund accounting entity. Special Accounts are accounts within the General Fund of the Consolidated Revenue Fund, established to identify expenditures of monies for specific purposes as authorized by various acts other than a *Supply Act*.

Since both Special Funds and Special Accounts are part of the Consolidated Revenue Fund, the transfer on March 31, 1988 of Special Fund balances to Special Accounts within the General Fund does not affect the reporting of transactions of the Consolidated Revenue Fund. However, beginning with the 1989 fiscal year, any separate reporting of General Fund transactions will include transactions of these new Special Accounts.

Our Observations

The rationale for the conversion of a number of Special Funds to Special Accounts, and for the establishment of the new Budget Stabilization Fund, has been clearly stated by the Government. The legislation giving effect to these fund changes appears to reflect those stated intentions.

However, the *Budget Stabilization Fund Act* does not stipulate when, and on what basis, amounts may be transferred to or from the Fund. That determination is left to the Government.

Due to the manner in which they are reported in the Government's financial statements, such transfers directly affect the operating results and any reported net surplus or deficit of the General Fund.

The Act provides for payments out of the Budget Stabilization Fund to go into the General Fund. As a result, the General Fund is currently the only fund within the Consolidated Revenue Fund from which government program expenditures can be made.

Statutory Authorization of Expenditures

The *Financial Administration Act* states that no money may be paid out of the Consolidated Revenue Fund without the authority of an appropriation approved by the Legislative Assembly. An expenditure appropriation may be authorized by a *Supply Act* approving the various votes presented in the Estimates, or by statutory spending provisions contained in the *Financial Administration Act* or some other act.

One of the statutory spending provisions is Section 20(3) of the *Financial Administration Act*. This section provides that, where a vote "...shows an item as a credit or recovery, the vote shall be deemed to authorize the payment of an amount equal to the aggregate of (a) the amount appropriated, (b) the estimated credits or recoveries set out in the details related to that appropriation, and (c) on the approval of Treasury Board, the amount by which the credits or recoveries actually payable to or received by the Government exceed the estimated credits or recoveries set out in the details related to that appropriation."

For example, if a vote contained proposed gross expenditures of $1,200,000 and recoveries estimated at $200,000, the net vote amount would be $1,000,000. Nevertheless, spending of up to $1,200,000 would automatically be permissible on this vote no matter what the actual recovery amount ended up being. In addition, should actual recoveries exceed the estimated $200,000, say by $100,000, then further spending of up to $100,000, to a total maximum of $1,300,000 ($1,200,000 plus $100,000), could be authorized under Section 20(3).

In the 1988 fiscal year, for certain voted appropriations where actual expenditures exceeded the amounts provided for in the Estimates, Section 20(3) was used as the approving statutory authority. With respect to $10,394,411 of overexpenditures in two of these votes, we consider that the provisions of Section 20(3) were not applicable, and that the use of this authority for these overexpenditures was inappropriate.

The votes in question are Vote 22, Public Schools Education, and Vote 26, British Columbia Utilities Commission.

In the case of Vote 22, the Ministry of Education estimated that recoveries pertaining to this Vote in the 1988 fiscal year would exceed the original estimated recoveries by $12,500,000. Accordingly, it sought and received Treasury Board approval to spend that additional amount on Vote 22 programs. When the final accounting for the Vote was completed for the fiscal year, actual recoveries credited to the Vote exceeded the original estimated recoveries by only $702,535. It is this amount alone which qualifies for additional spending approval under Section 20(3). Since actual gross expenditures exceeded the original estimated amount of the Vote by $10,873,628, spending of $10,171,093 ($10,873,628 less $702,535) was improperly authorized under Section 20(3).

For Vote 26, actual spending exceeded the original gross amount authorized in the Vote by $223,318. Since actual recoveries were less than the original estimated amount for this Vote, the application of Section 20(3) to approve this overexpenditure was also improper. We noted that the Commission had received authorization to transfer a large portion of this overexpenditure to the Contingencies Vote, but did not process the necessary accounting entries.

In both instances cited, we determined that there were other statutory authorities that could properly have been used to authorize the overexpenditures. Greater care should be taken by Treasury Board and the ministries involved to ensure that only appropriate authorizations are used for the expenditure of government funds.

Government Financial Statement Standards

The CICA, through its Public Sector Accounting and Auditing Committee (PSAAC), issued a Public Sector Accounting Statement in 1986 entitled "General Standards of Financial Statement Presentation for Governments." This statement contains recommendations on general reporting principles and standards for the disclosure of information in government financial statements.

In our last Annual Report, we noted that 22 of the 35 recommendations contained in that statement were being followed in the presentation of the Government's financial statements for the fiscal year ended March31, 1987.

In view of the importance of these recommendations to the Government's financial accountability commitment, we have provided below a report on our analysis of their status as at March31, 1988. We note that 2 recommendations are not being followed, and 11 are being only partially followed.

RECOMMENDATIONS	STATUS
PSAAC recommendations not being followed:	
Financial statements should disclose information to describe a government's acquired physical assets on hand and available for use by the government at the end of the accounting period.	Not being followed. The Government is awaiting further development of guidelines by PSAAC before proceeding with any review of this item.
The statement of revenues and expenditures should report changes in valuation allowances in the accounting period.	Not being followed. This item is under review.
PSAAC recommendations being partially followed:	
The financial statements of a government should be clearly identified and should include or be accompanied by an acknowledgment of the government's responsibility for their preparation.	Partial. Although signed approval of the financial statements is shown on the balance sheets, there is not a statement or acknowledgment of the Government's responsibility for their preparation.
Financial statements should present a comparison of current period amounts with those of the prior period(s).	Partial. There are no comparative figures for the Statement of Comparison of Estimated Appropriations to Actual Expenditures.
Financial statements should be issued on a timely basis.	Partial. Tabling in the Legislative Assembly has usually been 9 to 12 months after the fiscal year-end. See comments on page of this Report.
The statement of financial position should report a government's liabilities at the end of the accounting period segregated by main classifications, such as: accounts payable and accrued liabilities; employee pension obligations; borrowings; and loans and advances from other governments.	Partial. Employee pension obligations have not, to date, been included in the Government's reported liabilities, nor has the basis for their calculation been presented. In November 1988, PSAAC issued Accounting Statement 5, entitled "Accounting for Employee Pension Obligations in Government Financial Statements." This statement recommends how to account for and report such obligations.

Financial statements should disclose adequate information about the nature and terms of a government's liabilities.	Partial. See preceding comment.
Financial statements should disclose adequate information about the nature and terms of a government's financial assets together with any valuation allowances.	Partial. Terms of repayment, description of repayment dates, etc., are not shown.
Valuation allowances should be used to reflect financial assets at their net recoverable or other appropriate value.	Partial. Valuation allowances have not been provided for amounts recoverable only through future appropriations.
Financial statements should disclose information to describe a government's material financial commitments at the end of the accounting period.	Partial. There is a need to define material financial commitments and show estimated total costs for long-term projects.
Financial statements should disclose the gross amounts of expenditures.	Partial. Currently the Government bases its reporting on the criteria established by the Estimates, which do not call for disclosure of all amounts on a gross basis.
Financial statements should disclose the gross amounts of revenues.	Partial. See preceding comment.
The statement of changes in financial position should classify cash flows by operating, investing, and financing activities.	Partial. This information should show investments made and realized and debt financing issued and repaid during the period.

We continue to urge the adoption of the recommendations by PSAAC pertaining to government financial statement standards.

Follow-up of Unresolved Financial Statement Matters From Previous Annual Reports

The following points were reported in our previous Annual Reports, but were not resolved at the time our last Report was issued.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
Financial Statement Presentation			
1986	1.30	Recommendation that the Trust Funds Financial Statements include only those assets being held in trust for third parties and over which the Government does not have any power of appropriation.	No longer a concern. See further comments beginning on page 18 of this Report.
1986	1.36	Recommendation that the trust funds of the Public Trustee and Official Administrators, the Crop Insurance Fund, and the Land Registry Assurance Fund be accounted for and reported as actively managed trust funds.	Resolved. A change in the method of presenting Trust Funds financial information has eliminated our concern in this regard.

Government Accounting Policies

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1985 1986	3.15 2.10	Recommendation that the Government amend its accounting policy to ensure that cash receipts which arise from transactions of a similar nature and substance are recorded consistently in the accounts. The Estimates should then be developed in accordance with this policy.	No change. Inconsistent treatment of transactions of a similar nature continues. See further comments beginning on page210of this Report.

Financial Controls, By Ministry Responsible

Ministry of Finance and Corporate Relations

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1985	4.10	Suggestion that, while ministries are responsible for obtaining required approvals for reallocation of funds, monitoring of such transactions is necessary to ensure that Treasury Board rules are being observed.	Problem continues. Transfers between sub-votes, without prior Treasury Board approval, occurred in 5 ministries in 1987/88. The total amount of these transfers was $8.8 million.
1985 1986	4.17 3.54	Recommendation that all trust monies administered by the Government, and held through and in the Government's main bank account, be segregated from the assets of the Government.	Resolved. Our main concern was with trust monies administered by the Public Trustee. These are now held in separate bank accounts, segregated from the assets of the Government.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1986	3.9	Recommendation that a comprehensive review be conducted of all statutory expenditure authorizations and all special accounts, to determine the extent to which their spending provisions could be alternatively accommodated through the *Financial Administration Act* and thus be subject to annual review and approval by the Legislative Assembly. Recommendation that, if such authorities or accounts are deemed necessary, their need and use be subject to periodic review.	No change. See further comments beginning on page 198 of this Report.
1986	3.16	Recommendation that section 20(3) of the *Financial Administration Act,* which deals with items that are credits or recoveries, be studied to assess its interpretation and implications. Consideration should also be given to amending section 20(3) to require the actual receipt, or reasonable assurance thereof, of estimated credits or recoveries before the equivalent spending is allowed.	An accounting change planned for the 1989 fiscal year, involving business (school purpose) property taxes, will eliminate a major recovery account, which has been the principal user of section 20(3) of the *Financial Administration Act.* We will continue to monitor the statutory authorization of spending under this section of the Act.
1986	3.25	Recommendation that the Orders in Council (OICs) which authorize borrowing contain and clearly identify the maximum face value of the securities to be issued.	We are advised that the OIC and subsequent amendments authorizing short-term borrowing are currently being consolidated and revised to clarify any ambiguity regarding outstanding amounts. Completion prior to March 31, 1989 is anticipated.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1987	2.44	Recommendation that the Ministry review legislation to determine whether or not settlement provisions concerning Non-Residential School Taxes (NRST) are equitable and meet the needs of the Ministry and municipalities, and that it devise more conclusive measures to resolve the status of outstanding balances.	A new regulation to the *Education (Interim) Finance Act*, brought into force in April 1988, is expected to help resolve the status of outstanding balances. Also, the administrative policy which gave rise to the outstanding balances is being amended.
1987	2.49	Recommendation that the *Financial Administration Act* be clarified with respect to the requirements of having sinking funds authorized by OIC and of having sinking fund assets segregated from other assets. Recommendation that, regardless of the legislative requirements, the Government approve both the creation of sinking funds and the conditions that apply to them.	Resolved. A general sinking fund policy was approved by the Minister of Finance and Corporate Relations in April 1988.
1988	2.41	Recommendation that the use of retroactive financial legislation be avoided in future.	No similar concerns were encountered during the past fiscal year.

Ministry of Government Management Services

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1982	3.16	Recommendation that, if the centralized leave management system is to be relied upon, steps be taken to ensure that the information emanating from the system is accurate and reliable, and that unnecessary manual systems in ministries, which duplicate the central system, be eliminated.	Problem continues. See further comments beginning on page 222 of this Report.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
Ministry of Municipal Affairs			
1986	3.87	Recommendation that adequate statutory authority be provided for grant payments which are made to municipalities by the Ministry from the Revenue Sharing Fund for policing costs in non-urban areas within municipal boundaries.	No change.
Ministry of Social Services and Housing			
1983	3.33	Concern about the overall system for processing income assistance payments including file documentation, segregation of duties, cheques issued by computer, and cheques issued by field offices.	With the exception of concerns about GAIN file documentation at district offices, controls to resolve all significant weaknesses in processing income assistance payments have now been implemented. The Ministry is committed to making improvements in operational standards and, therefore, file documentation through training, internal audit programs and increased supervision.

Internal Control Reviews

Introduction

Internal controls are the processes used by an organization to govern its activities. They include the plan of organization followed, the records maintained, and the procedures employed to ensure that business is conducted properly and efficiently. Reliable internal control systems in government are essential to see that:

- expenditures are made only as authorized;
- all revenue to which the Government is entitled is assessed and collected;
- financial transactions are accurately recorded and reported;
- assets of the Crown are safeguarded; and
- relevant legislative and other authorities are complied with.

The extent of controls in any system should be determined by the risk of loss, error, or misuse that is judged to be present in the system. The greater the risk, the greater the degree of control required. However, the cost of control should not exceed the benefits likely to be derived. These factors, judgement as to risks involved, and the need for controls to be cost effective, mean that in most situations it is not practical for internal controls to provide absolute assurance that all risks are addressed and that all objectives will be achieved.

The Value of Impartial Reviews

In light of the growing financial and physical resources being managed and controlled by the Government, it is important that the Legislative Assembly receive impartial assessments of major internal control systems. These assessments help it to determine whether or not the responsibilities delegated to the Government have been properly exercised, and whether the Legislative Assembly's responsibility for control of the public purse has been met.

Evaluating and commenting on the Government's financial, administrative, and legislative internal control systems is an implicit requirement of the Auditor General's mandate.

Audit Coverage

Our approach involves assessing the status of internal control in two ways.

First, during our audit of the Government's annual financial statements we perform various tests to obtain evidence in support of our audit conclusions. This work takes place in every ministry, and touches on most of the Government's control systems. If we note specific weaknesses or instances of non-compliance with legislative and related authorities, and if we think any items warrant the attention of the Legislative Assembly, we present them in our Annual Report. Matters of lesser significance are handled through direct discussion with each ministry responsible. This approach ensures that matters coming to our attention during our regular examinations are properly dealt with. However, it is not intended to constitute a thorough and complete review of the Government's control systems.

The second way we assess internal control is through specific reviews. We examine, on a periodic basis, internal controls in all significant accounting systems. At the end of each system review, we issue a detailed report to the applicable ministry, presenting our overall conclusions on how well the internal controls address the major risks of the system. The report also includes our recommendations for the correction of identified weaknesses.

The reviews, however, apply to only one point in time. Projection of the reviews to future periods could be inappropriate because control procedures may become inadequate if conditions change, and compliance with the procedures may deteriorate. To give the Legislative Assembly assurance that controls continue to be adequate, the Office of the Auditor General has developed a program for the cyclical review of significant internal control systems over a reasonable time period.

Reviews Undertaken

Our 1988 Annual Report included the results of five internal control reviews. The subjects of those reviews are listed in Appendix C to this Report. This year, we have included the results of five more reviews. They examine the following:

- Property Purchase Tax System: Ministry of Finance and Corporate Relations
- Long-Term Debt Accounting System: Ministry of Finance and Corporate Relations
- Central Textbook Inventory System: Ministry of Education
- Data Collection Phase of the Stumpage and Royalty Revenue System: Ministry of Forests
- Provincial Police Services Contract Payment System: Ministry of Solicitor General

We feel that the Legislative Assembly and the public should also know the Government's response to our recommendations. Accordingly, we have included written responses to our 1988 and 1989 reviews, received from the various ministries in which our reviews were conducted.

Property Purchase Tax System: Ministry of Finance and Corporate Relations

Background

The Property Purchase Tax (PPT) system, introduced in March 1987, was designed to account for the tax charged on most real property transactions in the province and paid by the purchaser or transferee. The rate of tax is 1% on the first $200,000 of value conveyed, and 2% on values in excess of that. With $140 million in tax collected in 1987/88, and $200 million estimated for 1988/89, the PPT has become a major new source of revenue for the Province. Tax returns filed for the year ended March 31, 1988, numbered over 156,000.

The PPT system is one of self-assessment. The taxpayer calculates the tax and files a return for each property transaction that results in a change of title. The initial filing of the return and collection of the tax are handled by a Land Title Office (LTO). The LTO then batches the returns and sends them to the Income Taxation Branch of the Ministry of Finance and Corporate Relations for processing and audit. The Branch also issues any necessary assessment notices and maintains accounts receivable.

The first phase of the PPT system and the related forms and procedures were developed very rapidly due to the short time period between introduction of the *Property Purchase Tax Act* and the date it was to become effective. Further phases of development are planned in the future to enhance the system.

Review Scope and Objectives

With any revenue system, the major concern is that all revenues will not be collected and accounted for. In the PPT system, the major risk is that revenue could be lost in one of several ways: if taxable transactions are not reported; if unentitled or incorrect exemptions are claimed; or if transactions are not accurately and promptly recorded in the Government's central accounting records.

Our review objectives were designed to evaluate the adequacy of controls established by the Income Taxation Branch as at June 30, 1988, to address these risks. We did not review the controls designed by the Land Title Branch to account for all cash reported by their offices, because we did not consider these to be critical to our evaluation of the PPT system. So long as the PPT transactions are entered into a LTO cash register, the controls in place at both organizations should ensure the completeness of tax collected and recorded for those transactions.

Summary of Findings

We believe that the Income Taxation Branch has developed a comprehensive set of controls for the Property Purchase Tax system, which address the major risks associated with ensuring that the correct tax owing to the Province is collected. We noted a number of opportunities where improvement could be made and we believe that if these are addressed, controls over the collection of property purchase tax due will be strengthened.

As mentioned earlier, the initial filing of the returns and collection of taxes are handled by LTOs located throughout the province. We were concerned that the PPT system had no checks in place to detect if taxable transactions had been entered into the Land Title system but not into the PPT system. We therefore designed a computer program to match transactions included in the Land Title system against those entered into the PPT system. We concluded that, for the three-day period covered by our computer test, all taxable transactions (approximately 2500) had been properly reported. We recommended to the Income Taxation Branch that they implement a cost effective process to confirm that all taxable transactions are reported to the Branch for processing and audit.

We also notified the Branch of the need for ensuring that:

- checks are in place in the system to minimize any tax loss which could result from staff completing or correcting returns by making possibly incorrect assumptions based on information contained elsewhere in the return;
- high risk transactions defined and reported by the PPT system are reviewed on a timely basis;
- policies and procedures have been approved and distributed to the staff; and
- government policies on controls over changes to computer systems and over emergency, backup and recovery planning for computer systems are adhered to.

Response of the Ministry of Finance and Corporate Relations

You have provided an Executive Summary of the Internal Control Review conducted by your office on the Property Purchase Tax system. Your examination, covering the period since the inception of this tax in March, 1987 to June 30, 1988, noted that the Ministry of Finance and Corporate Relations had implemented a comprehensive set of controls for the system which addressed the major risks.

While acknowledging that the ministry had implemented a satisfactory system you noted that improvements could be made in the following areas:

- *further programs to improve the integration of information between the Land Title system and the Property Purchase Tax system;*
- *improved edit of data to verify assumptions made by staff in completing or correcting property purchase tax returns;*
- *fine tuning of the audit selection criteria;*
- *establishment of a written policies and procedures manual; and*
- *emergency change control, back-ups and recovery procedures for the system.*

You have my assurance that the areas identified in your report will be closely examined. Provided adjustments in the internal control system can be implemented within reasonable cost constraints, the matters you have raised will be dealt with at the earliest opportunity.

In conclusion, may I thank you for your efforts in evaluating this system and assure you of continued cooperation from this ministry.

Long-Term Debt Accounting System: Ministry of Finance and Corporate Relations

Background

Provincial Treasury is responsible for ensuring that the borrowing requirements of the Province and its agencies are met in a timely and cost effective manner. In fulfilling its responsibilities, it issues debt on behalf of the Province and issues debt in the name of the Province for the purpose of re-lending to Crown corporations. Treasury actively manages a total provincial debt portfolio of approximately $8 billion, of which $6 billion relates to long-term debt. The long-term debt includes $4 billion issued for government purposes and $2 billion re-lent to Crown corporations. It also maintains records on an additional $10 billion of guaranteed debt.

The Debt Management Branch of Provincial Treasury maintains a computerized mainframe system to record and account for provincial debt issues, redemptions, interest payments, sinking fund instalments, and produce interest cheques. This system is not directly linked with the Government's central accounting system and, therefore, the information on interest expense and debt liabilities must be separately entered into the central accounting system. To assist with this recording, the accounting staff of Treasury's Banking/Cash Management Branch also maintains both manual and microcomputer records.

The information on provincial debt provided by the systems and records of both Central Accounts and Treasury is valuable to management, taxpayers, and potential investors. It is used for preparing the annual financial statements of the Province, interim financial reports, the annual *Financial and Economic Review,* budget reports, prospectuses for public debt issues, and submissions to credit rating bureaus.

Review Scope and Objectives

We examined controls within Treasury as at November 30, 1988, to determine if management had adequately addressed the risks associated with accounting for and recording long-term debt. These risks include the issuing of unauthorized debt; failure to meet legal commitments; the making of invalid or inaccurate debt servicing payments; improper use of debt instruments; and the inaccurate recording and reporting of debt liabilities and commitments.

We also followed up on our earlier comments made to management for the year ended March 31, 1988, about the need for adequate reconciliations of account balances in the Government's central accounting system.

Summary of Findings

We concluded that, on the whole, existing procedures in the Provincial Treasury effectively address the risks associated with accounting for and recording long-term debt. However, we identified some areas where procedures could be strengthened.

Since our earlier comments on the need for proper ongoing reconciliation for account balances in the Government's central accounting records, Treasury management has put procedures in place to check transactions included in these balances. We believe, however, that a process should be implemented to fully reconcile the central account balances to Treasury's debt management records on a monthly basis. This would require the accounting staff of Banking/Cash Management Branch to make greater use of information contained in the mainframe computer system.

We also suggested that the Securities Service staff of the Debt Management Branch:

- authorize and test changes to computer programs prior to implementation; and
- review daily the data base activities report for unusual activities.

Response of the Ministry of Finance and Corporate Relations

Although existing internal control procedures with respect to the recording of long-term debt are effective, we agree that they can be improved as identified by Auditor General Staff. Therefore, Provincial Treasury will:

- *Reconcile the debt management records from the mainframe computer system to the central account balances on a monthly basis. This procedure will augment existing financial controls and reconciliations performed by the accounting section of the Banking/Cash Management Branch.*
- *Review the feasibility of automating all interest and amortization calculations on the Mainframe and including them in the Debt Management System.*
- *Ensure that all changes to the computer programs are authorized and tested by the Securities Service area prior to implementation, and that the daily data base activities log report is reviewed for unusual activity.*

Central Textbook Inventory System: Ministry of Education

Background

The Publication Services Branch provides textbooks and other printed educational matter to provincial school districts, independent schools, correspondence students, and certain adult vocational courses. Its responsibilities include the purchase, warehousing, and distribution of these educational materials. The cost of the materials annually purchased and distributed is about $20 million, while the value of inventory on hand at any one time may range up to $18 million.

The Branch operating objectives focus on the timely delivery of the educational materials in an efficient and economical manner, to the satisfaction of students and teachers. To achieve these objectives, the Branch needs to make multi-year purchases when it is most beneficial and cost-efficient to do so.

Review Scope and Objectives

With any business that deals with the acquisition, inventorying, and resale of goods, records and procedures should be established to ensure that goods purchased are received and paid for at agreed prices, that the goods are adequately protected against loss or damage, and that all sales are billed at the correct price.

We evaluated, as at November 30, 1988, the controls established by the Branch to address these risks at its principal warehouse in Esquimalt on Vancouver Island.

Summary of Findings

The Branch's procedures for receiving, storing, and distributing educational materials provide effective control over the physical assets entrusted to it. However, we believe that enhancements could be made to financial controls, which would increase the Branch's overall performance and accountability.

Because textbooks are classified as "not for resale," the Government's accounting policies do not permit the recording of undistributed textbooks as inventory at the fiscal year end. This results in all purchases being written off as expenses in the year of acquisition. Because the Branch cannot reduce its annual expenditures by the inventory on hand, we believe the application of this policy constrains the Branch from fully realizing savings in bulk purchasing, and thus limits its ability to meet its operational objectives. Furthermore, as inventory valuations are not required for reporting purposes, we feel that this has limited the Branch in developing accounting and other financial controls which would enhance its accountability. We therefore recommended to the Ministry that they ask the Office of the Comptroller General to consider allowing the inventory of textbooks to be "for resale," and so allow the Branch to be credited for the value of inventories on hand at the year end.

We also recommended to the Branch that the control procedures in place be adequately documented and approved, and that the documentation describing the inventory systems be consolidated into a specific policies and procedures manual. As well, we recommended that improvements in the inventory count and control procedures be made so that continuous evidence of control over inventory quantities would be provided.

Response of the Ministry of Education

The Ministry is pleased that the Branch's procedures were found to generally provide for effective control over the inventory. Also, we will discuss the concept of classifying textbooks as inventory "for resale" rather than "not for resale" with the Office of the Comptroller General.

Data Collection Phase of the Stumpage and Royalty Revenue System: Ministry of Forests

Introduction

The Ministry of Forests is constituted in accordance with the *Ministry of Forests Act*, and administers, among other statutes, the *Forest Act*. The Ministry has its head office in Victoria and operates through 6 regional and 44 district offices throughout the Province, with approximately 3,400 employees.

To carry out its assigned purposes and functions, the Ministry operates various forest management programs, including silviculture, fire suppression, forest protection, research and harvesting. One of the functions of the harvesting program is to determine the volumes and species of Crown timber removed from the province's forests. From this data, the Ministry prepares and issues invoices to collect stumpage and royalty (S&R) charges from those who are licensed to harvest the timber.

Forests revenues to the Government in the 1988 fiscal year totalled $744 million, of which $279 million was derived from the lumber export tax, which has since been discontinued. Forests revenues in 1988/89 are estimated at $689 million. The largest portion of this revenue is derived from Crown timber sales, represented by S&R revenues.

It is the Ministry's responsibility to ensure that all S&R charges are completely and correctly billed to, and collected from, the various forest users. To achieve this, the Ministry has designed a system of internal control for managing S&R revenues.

Review Scope and Objectives

There are three principal areas of control regarding the provincial forestry revenue system: data collection, data processing and revenue collecting. Specific control concerns about these functions are the following:

- are the details of data, collected on volumes and species of timber removed from Crown lands, complete and accurate when received by the Ministry for entry into the billing system?
- are the S&R invoices calculated and issued correctly?
- are the billed amounts collected?

The overall objective of this internal control review was to assess the risk of the data received by the Ministry on volumes and species of timber removed from Crown lands being incomplete or inaccurate, which would, as a consequence, prevent correct S&R invoices from being produced. This objective addresses the first control concern referred to above. The second and third control concerns may form the basis of future internal control review projects by our Office.

This internal control review thus focussed on the data collection phase of the Ministry's S&R revenue system during 1988.

Conclusion

We concluded that there exists a high risk of incomplete or inaccurate data being received by the Ministry for entry into its stumpage and royalty revenue system, which could result in unbilled forestry revenue.

Findings and Recommendations

The Ministry has policies and procedures to regulate forest practices, and to ensure that the Province collects appropriate charges from licensees. The main functions involved in managing the data collection phase of the Ministry's S&R revenue responsibility are: harvesting inspections, timber marking, check scaling and data collection.

Harvesting Inspections

Ministry policy is to have personnel conduct periodic inspections of actual logging operations. These inspections help the Ministry ensure that logging operations are carried out in compliance with the terms and conditions of the license authorizing the licensee to harvest Crown timber. When performing such inspections, ministry personnel review the operations for the use of proper timber marks, the utilization and waste of timber, trespass, and operator compliance with other license terms and conditions. These visits enable ministry staff to acquaint themselves better with the license and timber areas. Another major benefit of these inspections is the increased visibility of ministry personnel in the field. This encourages industry compliance with the Ministry's requirements.

Ministry policy requires that inspections be performed before logging operations begin, then on a monthly basis during active operations, and again within one month of completion of operations. We found that inspections of logging operations were being performed very infrequently. As a result, trees could be cut without harvesting data being collected and forwarded to the Ministry.

We recommend that harvesting inspections be conducted in accordance with the Ministry's policies, particularly with respect to frequency.

Physical Movement of Timber

To reduce the risk of unscaled timber, internal controls must extend to the physical movement of timber from the cutting locations to the places of scaling. We observed many situations where the control of this movement was not adequate.

A set of policies and procedures is not available in the regions and districts to guide and encourage uniform practices for the moving of timber. The controls that do exist, vary significantly from region to region and among districts within a given region.

A licensee, as part of obtaining an approved cutting permit, is assigned a timber mark. *The Forest Act* requires that all timber removed from Crown or private lands be marked. Before hauling the timber, logging truck operators are required to mark the timber with the applicable mark in the prescribed manner. This mark is the key identifier of the origin of harvested timber and helps ensure that the appropriate S&R rate is charged for the timber. The importance of marking was continually emphasized by ministry staff during our review. The Act states that the transporting of unmarked timber is an offence, and that such timber is subject to seizure.

During our visits to scaling locations, we observed a number of logging trucks that either did not display timber marks or had indistinguishable marks on the timber. On these occasions, ministry personnel did not seize the timber.

The requirements for the marking of timber vary greatly. For example, in some districts, the timber mark is imprinted into the timber by a special marking hammer, while in other districts crayon marks are acceptable. Variations in marking from district to district make enforcing the timber marking requirements difficult, especially when timber is moved by water or from district to district.

Timber is routinely transported across provincial and international boundaries, as well as between forest districts and regions. In some districts, the controls over the movement of timber appear to be effective. They are known to the forest companies and are enforced by ministry personnel. In other districts, the controls are not adequate. We are concerned that timber could be moved from logging operations directly to mills or out of the province without being scaled. This risk is greatest outside the ministry's normal working hours.

Lumber mills are not required to advise the Ministry when they are in active production. This places the onus on ministry staff, in particular the check scalers, to find out when the mills are in production so that check scales can be conducted. The absence of a requirement to report active production increases the risk of mills processing unscaled timber.

Much timber is transported in the Province by trucks. The Ministry of Transportation and Highways requires that logging trucks report to highway scales so that they can be checked for compliance with highway regulations. However, there is little coordination between that Ministry and the Ministry of Forests to assist in regulating the physical movement of timber in the Province.

We recommend that:

- *the policies for the marking of timber be reviewed and updated, and applied consistently throughout the Province;*
- *the Ministry implement uniform policies and procedures to regulate the physical movement of unscaled timber throughout the Province;*
- *policies be formulated to control the movement of timber across Provincial and international borders;*
- *mills be required to report to the Ministry when they are in active operation; and*
- *the Ministry coordinate procedures with the Ministry of Transportation and Highways to assist in controlling the movement of timber within the Province.*

Check Scaling

The Forest Act requires all timber from private and Crown lands, that is cut or salvaged, to be scaled by a licensed scaler authorized by a regional or district manager of the Ministry. Scaling is the measuring, grading and identifying of the species of timber. Regulations require timber to be scaled as soon as possible after it is cut. Data on volumes and species are derived from scaling information provided by the licensees who employ or contract scalers (industry scalers) to measure, grade and identify the timber harvested. This information is accumulated and sent into the Ministry so that S&R invoices can be prepared and issued to the licensees. Although the Ministry regulates this by authorizing who can perform the actual scaling and what methods may be used, it is dependent upon the industry to supply complete and accurate data regarding the volumes and species of timber harvested.

It is the Ministry's responsibility to ensure that the data collected from the licensees are accurate and complete. To do so, it relies primarily on its own check scalers, who review the work of the industry scalers, to see if the work is carried out competently and according to the Ministry's scaling requirements. Check scaling is the key control activity in the data collection phase of the Ministry's S&R revenue system.

Scaling is not an exact measuring procedure. It requires judgement in assessing defects and estimating lumber recovery from timber. For this reason, the intent of check scaling is to identify errors and unacceptable practices, and to ensure the work of industry scalers meets the required standards.

Ministry policy requires that check scales be performed at least once a month on active industry scalers while logging is in progress. We found check scales were not being performed this frequently.

We also noted other issues that weaken the effectiveness of the check scalers:

- Check scalers, as members of British Columbia Government Employees Union, have usually been limited to working Ministry office hours. This greatly reduces their ability to perform check scales at appropriate times and locations on a surprise basis, particularly at remote logging locations.
- The check scaling routines and procedures vary considerably from region to region, and in districts within the same region. While some districts have adequate controls and procedures in place, others rely almost entirely on the industry to monitor and report the volumes and species of timber harvested.
- When the check scale varies from the original scale by more than 3%, the District Manager may order the original scale to be replaced with the check scale, with notification to the industry scaler and his employer of the unacceptable original scale. This procedure is seldom carried out in coastal scaling operations.
- Scaling Regulations require that unscaled logs be segregated from scaled logs, and that logs once scaled be clearly marked as such, so that logs will not be missed or double counted. These requirements are not being regularly enforced by Ministry staff.

- The focus of ministry check scalers appeared to be directed toward ensuring that what is scaled is properly scaled. Little emphasis is placed on control procedures needed to help ensure that all timber cut or salvaged is in fact scaled.
- Many check scaling positions are often left vacant for long periods of time.

To help prevent unscrupulous practices, such as processing or transporting of unscaled logs, check scalers must be able to arrive at any time at all scaling locations to ensure that timber is properly marked and scaled in compliance with the Ministry's policies and procedures. Too few check scalers, working ministry office hours, do not have this ability.

We concluded that the Ministry has not given check scaling sufficient priority.

We recommend that:

- *the Ministry review and update its check scaling policies and procedures, and implement consistent policies and procedures throughout the forest industry;*
- *check scalers be allowed to work flexible schedules so they can conduct check scales outside normal working hours, including at remote logging locations; and*
- *all check scaling positions be kept filled as a matter of priority.*

Data Collection

Capturing the data on the volumes and species of the timber harvested is critical to ensuring that the Ministry prepares accurate S&R invoices. The Ministry must, therefore, have control over the processing, storing and transferring of this data which is received from the licensees.

Industry scalers record the details of their measurements on tally sheets. These sheets are then sent to the Ministry. In most regions, the tally sheets are not controlled in any manner that could help the Ministry ensure it receives all sheets. Because a lost tally sheet might not be detected, the Province could lose revenue.

At certain scaling sites, logging trucks are weighed before and after they unload timber to determine the volumes and species of timber harvested. The weight is recorded by computer, and, from a sample of a predetermined number of loads, the volume of the timber by species can be determined. The Ministry then prepares S&R invoices from the scale returns sent in from the industry weigh scales.

While the Ministry has control over the number of truck loads to be sampled, it has limited control over the type of software used by the forest companies in weighing the trucks or accumulating the monthly volumes of timber harvested.

Before the Ministry authorizes a licensee to begin harvesting timber, the licensee must provide the Ministry with an estimate of the volume of timber to be harvested. The method of estimating timber volumes follows established, recognized standards accepted in the forest industry. This process is referred to as cruising. The estimates project, within a range, the volume and species of timber that will be harvested from a particular stand of timber. These projections are used to establish the S&R rates.

At the end of logging operations, the Ministry has in its files a record of the accumulated volume of timber by species which was scaled from a particular timber stand. It does not, however, attempt to reconcile the actual volume of timber scaled to the volumes of timber originally estimated.

We believe that comparisons of the actual volumes of timber scaled to the originally estimated volumes could highlight situations meriting investigation by the Ministry, and thereby reduce the risk of unscaled timber.

We recommend that:

- *the Ministry implement controls over all source documents to ensure completeness of the data about timber scaled;*
- *the Ministry implement controls over computer software used by the licensees to produce data regarding the volumes and species of timber scaled; and*
- *after logging operations are completed in a particular area, estimated volumes of timber be compared by the Ministry to the actual volumes of timber scaled, and that it investigate large or unusual differences.*

Revenue Responsibility

The responsibility of ensuring that all data are collected for revenue billing purposes is not specifically assigned, in the regions and districts, to one area or one person. This results in control procedures being spread among various groups and individuals, resulting in a heightened risk of there being unbilled revenue. For example, the responsibility for ensuring that all timber delivered to mills is scaled, is divided between ministry staff responsible for harvesting inspections and staff responsible for check scaling. If these functions are not coordinated, the result could be no one taking the responsibility. The overall objective of ensuring that all timber harvested is scaled should be specifically addressed, and the various functions necessary to achieve this objective be coordinated among personnel.

We recommend that the Ministry assign responsibility for revenue data collection to specific positions in the regions and districts.

Response of the Ministry of Forests

Introduction

Revenue tripled as a result of forest policy changes announced in 1987, to an estimated $689 million in 1988/89. The Ministry recognized then that an even greater priority had to be given to its revenue management responsibility to ensure the Crown assesses and collects all the revenue it is due. A major thrust started early in 1988 to develop significant new systems and critically examine all revenue policies and processes, including those relating to data collection by licensees.

The Ministry fully expects to have the funding in its Estimates to cover the cost of the project in 1989/90.

Harvesting Inspections

Fundamental changes are being made to the way the Ministry has traditionally carried out its harvesting inspections.

Harvesting inspections are being changed from ongoing field monitoring to periodic field audits of major licensees. This does not apply to the Small Business Forest Enterprise Program where tenures will continue to be inspected, as they are now, on a monthly basis during active logging operations.

The responsibilities of major licensees are outlined through Letters-of-Understanding with the Ministry. In these instances, technical audits of the licensee's operational performance will be conducted by the Ministry once a year. Problems noted during these audits will be promptly acted upon and could result in penalties such as suspending operations and, ultimately, cancelling the licence.

These technical audits and Small Business Forest Enterprise Program harvesting inspections will provide the necessary control in monitoring industry's performance.

The Ministry is also developing a Forest Tenure Administration System that will further assist field staff in carrying out their inspections.

Physical Movement of Timber

Timber marking requirements have recently been strengthened. This is as a result of reviews done over the past few years and the increasing complexity of timber movement and usage.

A directive has been issued that timber marking requirements, as defined in the Forest Act and Regulation, are to be rigorously enforced. If these requirements are not met, timber can be seized and sold under the Forest Act. Since April 1988, more than 100 loads of timber have been seized for marking violations.

There are, however, circumstances under which marking of all timber is unnecessary. These are clearly stated in the directive issued. An exemption from marking may be granted, for example, where a scale station receives timber from only one cutting area with a single mark and the timber is processed at that site. Any exemptions granted from 100% marking must be in writing and obtained in advance of any timber movement.

The timber marking directive will also minimize the inconsistencies in controlling the movement of timber in regions and districts.

While policies and procedures are adequate to control the movement of scaled timber throughout the Province, increased emphasis will be placed on controlling the movement of unscaled timber. Section 3 of the Scaling Regulation is used by the Ministry to designate the scale station to which harvested timber must be taken for scaling.

While the Ministry has had detailed procedures in place to control the movement of timber across Provincial and International borders, further co-ordination within the Ministry, between Ministries and with Canada Customs is necessary to improve control.

All timber that is to be transported across International borders must be approved by the Ministry and have stumpage, and a fee-in-lieu-of-manufacturing, paid before the timber is moved. All timber exported must be approved by an Order-in-Council or Ministerial Order.

Timber cannot be exported via water until the required customs documentation is in order. The Ministry's approval for export of timber is a necessary customs document.

The Ministry liaises locally with Canada Customs in the transport of timber by land across the International border and is attempting to formalize this arrangement so that timber transported over land will have the same degree of customs control as timber transported via water.

Increased emphasis will be placed on improving co-ordination between this ministry and the Ministry of Transportation and Highways to ensure adequate control exists over the movement of timber within the Province and across Provincial borders.

Our policy requires lumber mills to advise the Ministry when they are not operating, so that inspection visits by Ministry staff can be appropriately arranged. This policy will be reviewed to determine the most effective reporting by industry.

Check Scaling

The Ministry recognizes check scaling as a critical control in exercising its financial responsibility.

Check scalers need the flexibility to work during the hours that industry operates. The collective agreement allows them to work outside regular government working hours. Greater use of this opportunity will be examined.

The Ministry is fully committed to staffing vacant check scaling positions. It has not always been successful for various reasons. The Ministry has had extreme difficulty in staffing positions in remote locations. This difficulty is compounded by the fact that the forest industry pay rates for scalers appear to be higher than government's.

In a further attempt to staff our check scaling positions as quickly as possible, advertisements will be placed throughout the Province for qualified scalers for the 18 vacancies from a total of 127 positions.

The Ministry is also assessing the potential effectiveness of other measures to improve revenue control. The establishment of enforcement units, for example, will ensure full compliance with Ministry scaling policies. These units will be established in each Region to carry out random, unannounced inspections to ensure timber being moved is properly marked.

These units will also be enforcing compliance in other critical areas, such as check scaling effectiveness, harvesting inspections and mills reporting their activity.

The policy on replacing, under certain conditions, industry's scale with the Ministry's check scale, will be reviewed. District Managers will examine all such variances to determine which scales need to be replaced by the check scales.

Data Collection

The Ministry recognizes its role in developing and vigorously enforcing scale data control standards. This includes controls over the completeness of scale data and computer software used by licensees. For example, the Ministry has recently established standards for the electronic transfer of scale data from industry to the Ministry. Direct electronic transfer of scale data is already happening in some instances.

The Ministry acknowledges that, due to changing scale data technology, the Ministry's policy and procedures require updating.

While cut-to-cruise comparisons are already undertaken in the Small Business Forest Enterprise Program, they will be extended to other tenures as a check of total scale.

Revenue Responsibility

The Ministry will review its organization in Regional and District Offices and restructure as necessary in order that accountability for revenue control rests with a single manager for whom this is a primary responsibility.

The Ministry will be pleased to have staff of the Office of the Auditor General revisit, from time to time, to review the Ministry's progress in all these Ministry initiatives. We are confident that once all our initiatives are implemented, the risk of incomplete or inaccurate timber harvest and scale data being received by the Ministry will be greatly reduced.

Provincial Police Services Contract Payment System: Ministry of Solicitor General

Background

Since 1950, British Columbia has contracted with the Federal Government for the Royal Canadian Mounted Police (RCMP) to provide provincial police services. Besides being the federal police force in Canada, the RCMP provides, under separate contracts, policing in eight provinces, the territories, and close to 200 municipalities, 51 of them in British Columbia. This Province is the largest user of the RCMP for provincial police services. As the Province's police force, the RCMP enforces the Criminal Code, provincial statutes, and municipal by-laws in all communities of up to 5,000 people.

The current contract is for 10 years ending in March 1991. It allows for the Federal Government to recover from the Province a percentage of the RCMP's total direct costs, capital costs, and overhead costs incurred in the province. This includes salaries, pension contributions, equipment rentals, operations and maintenance, space rentals, transportation, recruit training, and Vancouver headquarters costs. Under the cost-sharing arrangement, the Province's share of the total costs increases by 2% each year of the contract until the final year, when the Province will pay 70% of these costs. In 1988/89, the total federal cost of providing policing to British Columbia has been estimated at $128 million. At the current sharing rate of 66%, the Province is expected to pay approximately $84 million.

The Police Services Branch of the Ministry of Solicitor General monitors the provincial policing agreement and pays for the services billed to the Province. The RCMP provides regularly updated budgeting information, a quarterly staffing report, and a final Statement of Expenditures and Revenue after the end of each fiscal year. The Ministry may request further information about any budgeted or actual cost, but has no direct access to federal records or other cost support information.

Review Scope and Objectives

We reviewed the adequacy of internal controls in the contract payment system for provincial police services during January 1989. According to the *Financial Administration Act*, before contract payments are made, an authorized official must certify that:

- the work has been performed, the goods supplied, the service rendered or other conditions met; and
- the amounts to be paid are in accordance with the agreement or, if not specified, are reasonable; or, payments before contract completion are in accordance with the agreement.

Summary of Findings

Assessing Service Delivery

Assessing the delivery of service in a contract like this can be difficult. One indicator is complaints about the service from the communities receiving RCMP policing. Ministry staff receive and deal with such complaints. They report that the direct recipients of the policing services are satisfied. As well, the general impression within the Ministry is that the Province is getting a "good deal", in terms of receiving services that are worth the amount paid.

Monitoring Contract Billings

The Ministry obtains its assurance about contract performance by assigning responsibility for police services to an assistant deputy minister, and by employing experts in policing to oversee the contract. These officials in turn obtain their assurances from the following: ongoing consultations with the RCMP about all aspects of the contract; information received from the service recipients; and, a budget model used internally to monitor costs billed by the RCMP.

As the contract makes no provision for cost verification, the Ministry assesses the reasonableness of amounts billed by using a computerized spreadsheet model. The model is used to highlight cost items billed to the Province that require further explanations by the RCMP. We have suggested to the Ministry that they enhance the model by documenting its controls and verifying certain cost variables.

We found that the specified financial terms of the contract are being met, and that the Ministry is taking reasonable measures to monitor the costs billed to the Province, given the verification limits in the contract. The RCMP is providing the cost estimates, updates, requested information and billings as required, and the Province is paying on time.

Obtaining Independent Assurance

The Province has no access to the RCMP cost records and supporting documentation. Therefore, it is not able to establish that the cost basis for the billings can be supported (that is, that all billed costs were incurred, and in British Columbia). Another province using RCMP services—Saskatchewan—has made arrangements, through the Solicitor General of Canada, to have the Auditor General of Canada (who does have access to RCMP records and other cost support data) conduct periodic audits of the RCMP contract costs being charged to Saskatchewan.

We believe that, because the contract payments for provincial police services are based on federal costs which the Province has no jurisdiction to verify, British Columbia's Ministry of Solicitor General should consider seeking periodic independent assurance as to RCMP costs charged to the Province.

Response of the Ministry of Solicitor General

The Ministry concurs with the findings and recommendations of your review team. One of our objectives while negotiating a renewal of the federal/provincial agreement for provincial police services by the RCMP will be to ensure that adequate provisions are included for independent verification of RCMP costs.

Follow-up of Last Year's Internal Control Reviews

At the conclusion of each internal control review, we provide those responsible for managing the activity examined with an opportunity to respond to our review comments. These responses are published in our Annual Report.

This year we have expanded this process, and invited ministries that were the subject of internal control reviews last year to provide an update on the various matters raised at that time. The following written comments were received in reply to our invitation to the ministries to have this information published.

Provincial Treasury Investment System: Ministry of Finance and Corporate Relations

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
		Management of Capital	
1988	2.76	Recommendation that a daily review of trades be made to allow prompt remedial action in the event of trades being made outside established guidelines.	Implemented.
		Authorization and Support of Transactions	
1988	2.86	Recommendation that either written confirmations of verbal requests for capital withdrawals be obtained from trust clients or each client be asked to provide an approved list of payee accounts to which funds may be disbursed.	An approved list of client payee accounts has been established and implemented.
		Recording of Transactions	
1988	2.98	Recommendation that data entry clerks be specifically instructed not to release prelists for input without complete and proper approvals and not to accept transaction tickets without all appropriate signatures.	Implemented.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1988	2.100	Recommendation that particular attention be paid to backdated transactions. Transactions backdated beyond one month should be subject to specialized review before input, including a review of the impact of the entry on the transactions history of the relevant investment issue.	All transactions backdated beyond one month are reviewed by senior accounting staff before input. The SIS application was reviewed, but not implemented due to it's cost.
		Data Processing	
1988	2.123	Recommendation that a formal DBA position be established. This position would review new application programs or changes to existing programs, and authorize BCSC to move these into production. This independent review would reduce the risk of unauthorized access to data and programs and, therefore, provide more assurance on the completeness, accuracy and security of the computerized system.	The duties of the DBA are currently being carried out by the Manager of Production Systems. All online changes are also reviewed by BCSC before being accepted into the production environment.
1988	2.125	Recommendation that Treasury establish a rigorous method for checking test results before the approved changes be moved into production. This would provide more assurance that the changes will produce the desired results and not have any adverse effects. Test results should be retained so that they can be referred to if subsequent errors do occur.	Implemented.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1988	2.130	We recommend that the Ministry develop, document and test plans at three levels. First, the Emergency Plan or immediate response to the problem. Second, the Backup Plan or computer hardware, software and data needed to restore operations. And third, the Recovery Plan, or procedures to resume normal operations. The plan should identify all information and resources required to resume critical processing and back these up appropriately. It should include documented manual or microcomputer procedures for the critical processing activities in case the automated system cannot be brought back within the 24 hour time constraint. Treasury and ISB staff should receive adequate training with regard to recovery procedures. The Ministry should, when developing a plan, consider the adequacy of BCSC's Recovery Management Group's plan for restoring computer service in the event of a major outage.	An emergency plan (or immediate response to the problem) has been developed (on a PC within Provincial Treasury) and implemented. The backup plan of computer hardware, software, and data needed to restore operations has been addressed in BCSC's Disaster Recovery Plan. In addition, we send copies (daily) of all our data to off-site storage. The recovery plan (or procedures to resume normal operation) have been thought through and documented, although, not tested in the production environment.

Sewerage Assistance and Water Facilities Grants Payment System: Ministry of Municipal Affairs, Recreation and Culture

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1988	2.144	The Ministry should request more cost information from municipalities and review this information to ensure that the terms and conditions of the original application have been met.	The application form was revised in order to obtain more information from the municipality. Additional information is available from the Ministry's Municipal Finance Branch's files and is reviewed as necessary.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1988	2.148	The Ministry should ensure that they update and approve the procedures manual and distribute it to all pertinent financial staff.	The Revenue Sharing Fund Procedures Manual has been distributed to pertinent Ministry staff. The manual will be updated when changes and/or new initiatives are introduced.
1988	2.152	All claims should be reviewed by a second person before payment and the review should be documented.	Due to the reorganization of the Ministry, the Municipal Debt System (MDS) has not been fully implemented. The claims for June/88 were reviewed using the MDS; however, this process identified some systems deficiencies and enhancements which were required. As a result, most claims were verified manually against the printout provided by Municipal Finance Branch. All claims were reviewed a second time by the Manager before processing for payment. Current year claims were compared to previous years claims and municipalities were queried about any substantial variance in the total dollar amount claimed from one year to the next.
1988	2.156	Procedures should be introduced to prevent claims being processed unless the applicant provides the required supporting documentation.	As the claim can represent a substantial dollar amount and/or represent a needed cash flow, withholding payment can create a hardship for the Municipality. Therefore, the Ministry will pay the claim and request the necessary documentation. If necessary, recoveries or adjustments to subsequent payments will be made.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1988	2.160	Personnel giving payment authority should be provided with full supporting documentation along with the cheque requisitions.	The payment authority receives and reviews all claims and the supporting documentation. The payment authority initials the claims as well as the manual summary listing of payments to municipalities.
1988	2.162	Noted that payment authorities reviewing the cheque requisitions may not always be thorough.	Cheque requisitions and the supporting schedules and documentation are thoroughly reviewed by the payment authority to ensure the accuracy of the account coding information and the probity of the payment.
1988	2.164	Noted that the commitment records are not regularly reconciled with other financial reports.	Due to the reorganization of the Ministry, the procedures related to the reconciliation of commitment records have not been fully documented. It is anticipated that procedures will be documented and implemented by fiscal year end. The fiscal year 1988/89 commitment records and transactions will be fully reviewed and reconciled according to these procedures.

Shelter Aid For Elderly Renters Grant Payment System: Ministry of Social Services and Housing

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1988	2.179	Recommendation that the Ministry require the applicant to submit sufficient, appropriate documentation in support of his claim for SAFER benefits. Alternatively, the Ministry independently check certain information on the application and require documentation for other pertinent data to ensure eligibility and entitlement.	A review of SAFER policy including the points raised by the audit is underway and it is expected that recommendations will shortly be referred to the Executive Committee of the Ministry.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1988	2.181	Recommended that the Ministry prepare a formalized and comprehensive procedures manual covering all aspects of the SAFER program operations.	Finalization of the procedures manual awaiting completion of policy review (see 2.179).
1988	2.186	Recommendation that the Ministry review its spending authority matrix for appropriateness, and ensure that only the authorized persons initiate SAFER expenditures.	The spending authority matrix has been reviewed but has not been changed. The verification procedures to be carried out prior to the initiation of SAFER expenditures have been improved and a new method of documenting the performance of these procedures has been implemented.
1988	2.194	Recommended that the Ministry comply with the Regulation requiring all changes affecting eligibility and entitlement to receive SAFER benefits be reported in writing by the client.	Action regarding this recommendation is under discussion as part of SAFER policy review (See 2.179).
1988	2.197	Recommended that reconciliation of the number of active clients between reporting periods be prepared, and regular comparison of master file data with client files be made.	Completed.
1988	2.199	Recommended that the Ministry review its payment authority matrix for appropriateness, and ensure that only the authorized persons requisition payments.	Completed.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report

Small Business Enterprise Program Revenue System: Ministry of Forests

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1988	2.222	The computer input forms are not reviewed and approved to ensure that the correct bonus bid rate is billed. If this function is not performed the incorrect amount of stumpage could be charged to operators when harvesting commences.	The Ministry agrees with the recommendation and has issued a directive to all regions requiring review and approval of input forms and evidence that such a review has occurred.

Vital Statistics Division Revenue System: Ministry of Health

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1988	2.238	Recommended that staff other than those directly responsible for handling cash receipts be assigned to independently verify cash balancing procedures.	The Ministry has implemented new procedures whereby the Accounting Supervisor independently verifies cash balancing procedures.

Financial Statements of Public Bodies

In Volume III of the Public Accounts, the Government has published the financial statements of certain public bodies. These relate, in the main, to those public bodies included in the Consolidated Financial Statements of the Government, and those not consolidated but which are audited by the Auditor General. Section F of Volume III contains the financial statements of Crown corporations and other government agencies, while Section G contains the financial statements of trust funds, including pension and superannuation funds administered by the Government.

Listed below are those public bodies for which the Auditor General was appointed auditor as at March 31, 1988. Their combined assets and expenditures amounted to approximately $19.7 billion and $3.7 billion respectively.

British Columbia Assessment Authority

British Columbia Educational Institutions Capital Financing Authority

British Columbia Health Care Research Foundation

British Columbia Heritage Trust

British Columbia Housing and Employment Development Financing Authority

British Columbia Hydro and Power Authority Pension Fund

British Columbia Institute of Technology

British Columbia Power Commission Superannuation Fund

BC Rail Ltd. Pension Fund

British Columbia Regional Hospital Districts Financing Authority

British Columbia School Districts Capital Financing Authority

College Pension Fund

Creston Valley Wildlife Management Authority Trust Fund

Expo 86 Corporation

Health Facilities Association of British Columbia

Knowledge Network of the West Communications Authority

Legal Services Society

Medical Services Commission of British Columbia

Members of the Legislative Assembly Superannuation Account

Municipal Superannuation Fund

Province of British Columbia Pooled Investment Portfolio, Fund ST1

Province of British Columbia Pooled Investment Portfolio, Fund ST2

Provincial Capital Commission

Provincial Rental Housing Corporation

Public Service Superannuation Fund

Simon Fraser University

Teachers' Pensions Fund

University of British Columbia

University of Victoria

Workers' Compensation Board of British Columbia

Workers' Compensation Board Superannuation Fund

The financial statements of the Liquor Distribution Branch of the Ministry of Labour and Consumer Services also appear in Section F of the Public Accounts. Since we examine the accounts of this Branch as part of our overall audit of the Government's accounts, no separate audit opinion is given on these statements.

Audits of Public Bodies

The content and format of a public body's financial statements are the responsibility of its management who select, from policies considered acceptable, accounting policies appropriate to the public body's activities. As auditor of a public body, it is the Auditor General's responsibility to express an opinion as to whether its financial statements are presented fairly in accordance with appropriate accounting policies. The auditor's opinion on the annual financial statements of each of the 31 public bodies audited for 1988 by the Auditor General was expressed without reservation.

One further, important aspect of our work is to check that public bodies are complying with their enabling and other legislation, as well as with relevant government directives, and we design our audit work to address these matters. Where we identify significant instances of non-compliance, we report our concerns through adding a third paragraph to the auditor's report. This year, in the case of the Provincial Capital Commission, we identified one such matter and, accordingly, the auditor's report included the following paragraph:

"The Provincial Capital Commission is required by section 10 of the Act to obtain approval from the Lieutenant Governor in Council for each capital project having an estimated cost of more than $200,000. The Commission obtained approval from the Lieutenant Governor in Council authorizing a total expenditure of $578,000 for a specific capital project. This project was completed during the year ended March 31, 1988 for a total cost of $680,559, resulting in an unauthorized expenditure of $102,559. This excess expenditure was charged to unappropriated surplus."

Reliance on Other Auditors

In conducting our audit of the Government's Consolidated Financial Statements, we rely on the work of auditors of a number of public bodies for which the Auditor General is not the appointed auditor, but whose accounts are included in the Consolidated Financial Statements. There were 17 such public bodies at March 31, 1988. Their combined assets and expenditures amounted to $16.3 billion and $4.1 billion respectively. The auditor's reports for all 17 public bodies were issued without reservation. We appreciate the assistance which these auditors provided to us in the carrying out of our work.

Appendix F lists the public bodies, of which the Auditor General was not the appointed auditor, whose financial statements are included in Volume III of the Public Accounts.

Public Body Accountability

In our last annual report we pointed out that public bodies were significant instruments of government policy, whose collective financial impact by some measures equalled that of the Government itself.

We were concerned as to whether an accountability process existed which provided for adequate accountability of public bodies to the Legislative Assembly. We therefore urged the government to conduct the comprehensive study of public body accountability and control that was recommended in 1981 by its Task Force on the Financial Administration Act. To our knowledge no action has yet been taken by the Government on this most important subject.

We also stated our Office would be studying the issue with particular emphasis on financial reporting and audit, and would be pleased to contribute to any overall review which might be conducted. Our study is continuing and is expected to be completed in the near future.

Volume III of the Public Accounts

In the last few years the Government has made improvements to the content of Volumes I and II of the Public Accounts. Volume I contains the audited financial statements of the Government; Volume II provides information about payments to suppliers and public servants. However, Volume III, which contains the financial statements of public bodies, has remained relatively unchanged. Public bodies whose financial statements are contained in Volume III comprise, in the main, those included in the Consolidated Financial Statements of the Government and those others not so consolidated but nonetheless audited by the Auditor General.

Volume III is an important source of accountability information and we believe that, in line with the continuing improvements to Volumes I and II, a review of the content of Volume III should be undertaken to see if improvements can be made. We believe that Volume III should continue to contain the financial statements of public bodies that are included in the Government's Consolidated Financial Statements as well as those for all trust funds, such as superannuation funds, administered by the Government. However, important additional financial information is also now available though the provisions of the Financial Information Act. Consideration might be given to including, in Volume III of the Public Accounts, advice as to the financial accountability information now publicly available as a result of that Act.

Part II: Value-for-Money Audits

Part II: Value-for-Money Audits

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Introduction to Value-for-Money Auditing

Purpose of the Audits

Over the last several decades, the size and complexity of governments in Canada have changed significantly. Increased demands for services have broadened the variety and scope of government programs and resulted in a rapid rise in the level of government expenditure. This, in turn, has focused attention on the quality of government administration and led to demands that governments demonstrate prudent use of public resources. Consequently, government accountability for performance is now generally held to include accountability for economy in obtaining resources, and for efficiency and effectiveness in using those resources.

A value-for-money audit is defined as:

> ...an examination that provides an objective and constructive assessment of the extent to which:
>
> - financial, human and physical resources are managed with due regard to economy, efficiency and effectiveness; and
> - accountability relationships are reasonably served.

These audits are based on two principles. The first is that public business should be conducted in a way that makes the best possible use of public funds. The second is that people who conduct public business should be held accountable for the prudent and effective management of the resources entrusted to them.

In British Columbia, the *Auditor General Act* directs the Auditor General to assess whether government programs are being administered economically and efficiently. Accordingly, value-for-money auditing as practised by our Office is concerned with assessing whether government programs are implemented and administered in an economic and efficient manner, and whether Members of the Legislative Assembly and the public are provided with appropriate accountability information.

Results of the Audits

In the reports that result from these audits, we provide fair, independent assessments of the quality of government administration. During an audit, we examine a particular program or function of the Government to determine how well that aspect of its administration is managed. Our examinations are conducted in a way that enables us to provide positive assessments where they are warranted. Where we cannot provide such assessments, we report the reasons for our reservations. Throughout our audits, we identify opportunities to improve government administration.

Our Audit Process

We conduct our value-for-money audits in accordance with the value-for-money auditing standards of the Canadian Institute of Chartered Accountants. As these audits involve a comparison of actual performance against a standard of performance, the Institute prescribes standards as to the setting of appropriate performance standards or audit criteria, and the nature and extent of evidence that should be obtained to support the content of the auditor's report. In conducting our audits, we do not demand theoretical perfection from public sector managers. Rather, we seek to determine whether they are meeting the reasonable expectations of legislators and the public.

As well, the Institute's auditing standards address the reporting of audit results. Our Office usually makes two reports: one to our client, the Legislative Assembly; and another more detailed report to management of the entity audited.

When undertaking value-for-money audits, auditors can either look at results, to determine whether value-for-money is actually achieved, or at managements' processes, to determine whether those processes should ensure that value is received for money spent. Neither approach, on its own, is capable of providing answers to all of the legitimate questions of legislators and the public, particularly if problems are found during the audit. Consequently, we try to employ a combination of these two approaches wherever we can. However, as acceptable results information and criteria are often not available, much of our value-for-money audit work concentrates on managements' processes for ensuring value for money.

Our Audit Program

We examine value-for-money and accountability issues on a cyclical basis. Given the number of government ministries and public bodies, and the number of programs each of these entities administers, it is not practical for our Office to conduct these examinations annually in every entity. Even if it were possible to do so, we do not believe it would be desirable. Recommendations arising from value-for-money audits take time to implement, and results take time to show up. Consequently, we believe these audits should be undertaken on a five- to six-year cycle so that members of the Legislative Assembly and the public receive assessments of all significant government operations over a reasonable time period. This schedule has not yet been achieved.

The subjects that we select for a value-for-money audit may be programs or functions administered by a specific ministry or public body, or cross-government programs or functions that apply to many government entities. We have reported on a number of each of these types of audits over the last few years. This year's Annual Report contains the results of value-for-money audits conducted in the Ministry of Health, as well as the results of our cross-government examination of the Government's privatization program.

Privatization: Introduction

On October 23, 1987, the Premier announced that the Government would be restructured through two major programs: decentralization and privatization. The new privatization program represented more than a mere continuation of a move toward privatization; it greatly accelerated the thrust. Figures commonly reported in the media at the time put the value of the entities earmarked for privatization at $350 million. In fact, privatizations to date far exceed that figure.

In theory, any public service program is capable of being delivered by either the private or the public sector. So long as the deliverers are held accountable for continuing to provide the same level of service, the key to deciding which delivery model to use in any specific case lies in determining the relative cost-benefits of each model. Nonetheless, many British Columbians have voiced strong convictions about the Government's privatization program. Their opinions are based, in part, on conflicting comments from a number of sources that may not be, or be seen to be, objective.

The Auditor General, as a servant of the Legislature, is independent of the Government of the day. He is neither an advocate nor an opponent of privatization, and he has access to information that is essential to assessing the program. Accordingly, his impartial, professional assessments can help Members of the Legislative Assembly and the general public to understand certain implications of the program. This section of our Annual Report includes those assessments.

Four value-for-money audit reports on the Government's privatization program are presented. The first deals with the generic process designed for government ministries to follow in privatizing their programs or activities. The next two examine the processes actually followed in privatizing four government operations: the Queen's Printer publications section in Victoria; the soil, feed, and tissue laboratory in Kelowna; the sign shop in Langford; and the road and bridge maintenance operation for southern Vancouver Island. The last report looks at the results achieved in privatizing part of the British Columbia Enterprise Corporation loan portfolio.

We reviewed the generic process because of its wide impact. This process was designed for all government ministries to follow. Such an examination, we felt, would be useful both in assessing completed privatizations, and in considering refinements that might be made for future privatizations. We reviewed the process actually followed in four early privatizations for the same reasons. The first three privatizations were, in the Premier's words, "small in size but large in significance," whereas southern Vancouver Island was the first of 28 road and bridge maintenance contract areas to be privatized. To combine a hindsight assessment with the potential for some future benefit, we undertook these particular studies.

The earliest of these early privatizations will be formally accounted for in the *1987/88 Public Accounts*. The Legislative Assembly will have to wait a further year to receive a formal accounting for the majority of the other privatizations that have been completed to date. The Privatization Benefits Fund, which was not established until the Government's 1989 fiscal year, has received $2.1 million from the four early privatizations that we examined. We will review the Fund once the Government releases its *1988/89 Public Accounts*.

The privatization program has not been restricted to government ministries. However, the generic privatization process designed for government ministries has not been made applicable to public bodies. To include a public body's privatization in our examination, we therefore looked at the British Columbia Enterprise Corporation's sale of its loan portfolio. We intend to examine other public body privatizations in future as our resources permit.

We recognize that a "fair" deal for taxpayers does not necessarily mean obtaining the highest price. However, in all of these audits, our interest was in value for money. We did not bring into our considerations the regional economic development or other broad policy goals of the Government. We sought only to assess whether the process was adequate to provide Cabinet with sufficient reliable information to evaluate the value-for-money consequences of its decisions, and whether the Legislative Assembly and public were provided with sufficient reliable accountability information to judge the value for money achieved. In our fourth report, we sought to measure directly whether taxpayers received value for money from the sale of the loan portfolio.

"Privatization: The Process" looks at the procedures that government ministries are to follow when privatizing their programs or activities. In it, we point out that the process favors privatization through employees without obtaining competitive bids. Public bids are only required if the Government, in its view, is unable to gather sufficient other information to establish that the deal is fair to both the employees and the taxpayer. In this report, we explain several concerns we have about the Government's ability to gather sufficient information about the worth of a business without obtaining public bids. We believe that for most government operations this would be very difficult. Accordingly, we think the generic process should be amended to include a public bidding process in all cases.

"Privatization: Early Initiatives" reflects the same theme. This report covers our review of three early privatizations, all of which were completed without a public bidding process. In this report, we describe the difficulties actually encountered in obtaining sufficient reliable information about the value of government operations through means other than competitive bids. The Government tried to get that information, and probably did the best it could in the time allowed and under the prevailing circumstances. However, in our view, it was unable to produce sufficient information to evaluate the value-for-money consequences of these privatizations. In all these cases, we believe the Government could, and should, have obtained public bids.

On the other hand, the road and bridge maintenance contract for southern Vancouver Island was exposed to the market. In "Privatization: Highways", we note that the Government determined the prices that would be paid on the open market for the physical assets and business opportunity inherent in this privatization. As well, it obtained competitive bids for maintaining roads and bridges on southern Vancouver Island. The Government also obtained other information to determine its upset prices, and compared these to the best prices that could be obtained on the open market.

In both "Early Initiatives" and "Highways", we note that the Government struggled with difficult concepts. Chief among these was the relationship between the components of value for money. The major value-for-money elements in each of these transactions were the physical assets that were sold or leased, the business opportunities that were provided, and the contracts for future services. However, these business operations—marketing government publications, laboratory testing, sign making, and road and bridge maintenance—were not split into their components and sold on a piecemeal basis. They were each privatized as an operating entity.

Thus, the Government had to consider the trade-offs involved. For instance, if a contractor had to pay more for either the physical assets or the opportunity to fill a government contract, he would have to charge more for providing services over the length of that contract. Conversely, with a lower initial investment, he could provide the future services at a lower cost. All of these agreements allocated the "package price" among the various components of the transaction, but the Government ultimately had to determine whether the final package represented value for money. We found that the Government did not obtain sufficient information about all the individual value-for-money components in the privatizations we examined. However, we believe the process followed to privatize road and bridge maintenance operations on southern Vancouver Island was adequate to provide the information needed to evaluate the value-for-money consequences of the package decision involved.

"Early Initiatives" and "Highways" also look at the representations made by the Government about these privatizations. In these reports, we concede that the Government has yet to complete its accountability cycle. The primary vehicles for accountability reporting—the Public Accounts and ministry annual reports—had not been completed by the time of our audits. Accordingly, we looked at the only form of representations available: statements made through the media.

None of the representations made through the press about these privatizations contains complete information about all the components of the transactions. For instance, while they all disclosed the selling price of the assets sold, none of them indicated the appraised value of those assets. However, in the case of the highways privatization, the asset sale was not a significant part of the package. Accordingly, we concluded that the representations made in that case were reasonably complete. We did not reach the same conclusion about the representations made in the cases of the three early initiatives, for reasons stated in that report.

Our fourth report, "Privatization: BCEC Loans", describes a different kind of audit. While the first three looked at the process, this one reviewed the results. Again, however, we only looked at one aspect of the results: value for money. Because of the relatively straightforward nature of the loan portfolio, and because of the timing of this sale in relation to the timing of our audit, we were able to gather sufficient audit evidence to form our own independent assessment of the value of the portfolio sold. We concluded that the Enterprise Corporation received fair market value for the portion of the portfolio that it sold.

In the four reports that follow, then, we provide our independent value-for-money assessments of five of the privatizations that have been completed to date, as well as our assessment of the generic process to be followed by government ministries.

Privatization: The Process

A review of the process designed for ministries to follow in privatizing government programs and activities.

Audit Purpose

In this audit, we assessed whether the Government's stated privatization process is adequate to provide the information needed to evaluate the value-for-money consequences of privatization decisions.

We focused on the process to be followed by government ministries. The audit was not designed to determine if the stated process has actually been followed; nor did it include a review of the privatization processes developed by provincial Crown corporations. These considerations will be the subjects of future reports.

Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

We believe the Government's privatization process adequately considers value for money when the Government follows a public bidding process. However, the process favors privatization through employees, without public bids. In our opinion, this preferred process is inadequate to provide the information needed to evaluate the value-for-money consequences of privatization decisions.

The History of Privatization in British Columbia

The history of privatization in British Columbia extends back at least a decade. In early 1979, the Province privatized several government enterprises when it gave each resident five free shares in British Columbia Resources Investment Corporation. Beautiful B.C. Magazine was sold in 1983, and in 1984, Pacific Coach Lines and three ski hill operations were privatized. In 1985, the general insurance business of ICBC was sold.

In addition to selling shares and assets, the government has been contracting out services for years. In 1984, the Province found it would not be able to sell the assets and business of B.C. Systems Corporation the way it had originally intended. Instead, it achieved its objectives by contracting out most of its data processing activities. Virtually every government ministry has responded to the downsizing directives of the early 1980s by contracting out various services.

The Current Program

On October 23, 1987, the Premier announced that the Government would be restructured through two major programs: decentralization and privatization. The new privatization program represented more than a mere continuation of a move toward privatization. It greatly accelerated the thrust.

On the same day the program was announced, the Premier named two Crown corporations and 11 government operations that would be sold or transferred to the private sector. Action groups had already been formed to report on the privatization of another four government operations. Every government activity and program was to be reexamined and, where appropriate, privatization options "pursued actively." Three deputy ministers formed a new Privatization Implementation Committee to coordinate all privatization efforts and make recommendations to Cabinet. To support this committee, individuals were seconded from ministries or contracted from the private sector to form a new Privatization Working Group. A new Privatization Benefits Fund was established shortly after that to hold the proceeds from privatizations, and a new communications system—Info Line—was established to keep government employees and the public informed about privatization developments.

In short, the current privatization program is a major one.

Privatization Principles

The privatization program is based on the following principles:

- Government's role is that of a manager. It should determine the nature and scope of social services and should play the role of planner, facilitator, and catalyst for the economy.
- Except in unusual circumstances, the private sector should be responsible for commercial production of goods and services.
- The private sector should be given responsibility for delivering other government programs when it can do so effectively and provided the public interest is protected.
- Government will favor arrangements that encourage employee ownership.
- Government will favor arrangements that support regionally developed economic strategies.
- In any process of change, including privatization, the Government will ensure that its employees, communities, firms, and the general public are treated fairly.

In announcing the program, the Government said, "It is important to remember that privatization is only a tool, not an end in itself," and that "there are many different approaches to privatization." The option chosen, if any, would "depend on the special features of each situation, the need to protect the public and *to strike a good deal for taxpayers (both in the short and the long-term)*, and on the opportunities to contribute to economic development." (Italics added.)

In other words, privatization is designed to achieve broad policy goals. It should, however, be implemented in such a way that taxpayers receive value for money.

Audit Criteria

"Value for money" is concerned with the relationship between services and costs. We looked at value for money from the viewpoint of the taxpayer. Accordingly, we sought to determine whether the process would ensure taxpayers receive fair value from the sale of any assets. We also considered the future costs and services to the public, not just the direct future costs savings for the Government.

We applied these concepts to three distinct phases of the process:

- selecting candidates for privatization;
- carrying out or implementing the privatization; and
- monitoring the privatized operation.

Selecting Candidates

We found that the process, if followed, will ensure the Government selects appropriate activities for privatization.

Identifying Candidates

The process shown in Figure 2.1 requires all government activities and programs to be considered for privatization. Special task forces and the ministries are doing just that. The Government has instructed them to challenge the original reasons for placing activities and programs in the public sector and to identify candidates for privatization accordingly. In addition, the Government has encouraged employees and members of the public to identify suitable candidates.

Registering Candidates

Once candidates are identified, the process calls for the privatization working group to log the proposal in its privatization proposal inventory system. This system enables the working group to track the progress of the proposals through the various steps.

Evaluating Proposals

Each proposal is then reviewed, first in a preliminary way and then in more detail.

The preliminary evaluation is done by the ministry that has been carrying out the activities or program identified. This review determines whether the proposal is consistent with the privatization principles.

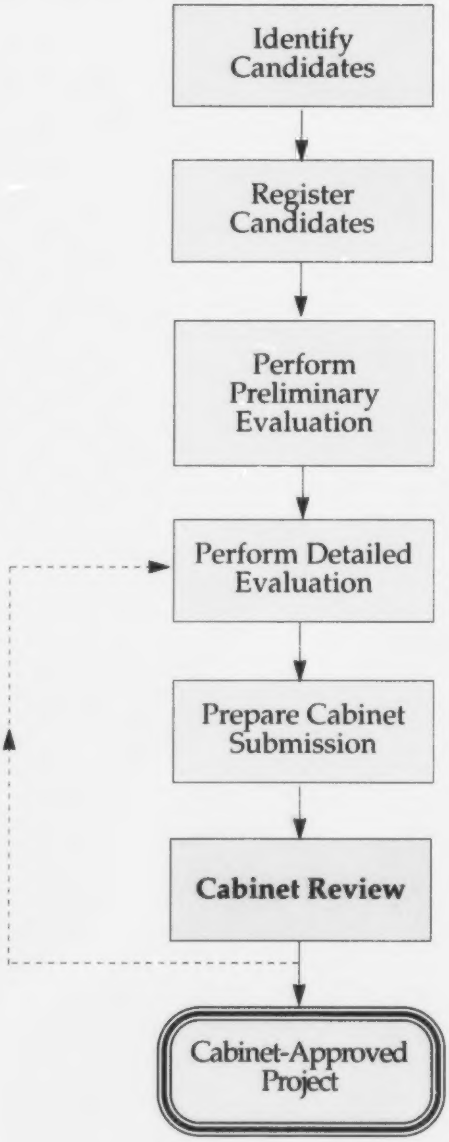

Identify Candidates
Register Candidates
Perform Preliminary Evaluation
Perform Detailed Evaluation
Prepare Cabinet Submission
Cabinet Review
Cabinet-Approved Project

FIGURE 2.1.

The selectio process.

The detailed evaluation considers whether there are any major operational, legal, policy, or other reasons for rejecting the proposal. It includes assessing the net savings to government, the protection of the public interest, and the changes in levels of service. The detailed evaluation may be done by the ministry or by the privatization working group. If the latter is involved, it assigns responsibility to a project director, who in turn forms a project team to guide the proposal through the process.

There are clear guidelines for performing both the preliminary and detailed evaluations. However, these guidelines primarily cover what to evaluate. At the time of our audit, there was little written guidance about how to do it. For instance, the project teams are to assess whether any individual proposal would be a financially viable private sector business. To do this, they are to analyze pro forma financial statements, concentrating on the "sufficiency" of debt, equity, and working capital. There are no criteria for minimum debt to equity or working capital ratios. However, we believe this is reasonable in the circumstances.

The Government does not yet have enough experience to set detailed criteria for each of the evaluation factors. Further, it would be inappropriate to establish a single set of criteria for all of the various kinds of businesses that are being considered for privatization. Accordingly, the Government assembles persons with the skills necessary to perform the evaluations, and relies on their judgments.

Because the process relies heavily on the judgments of individuals, it is important to define the collective skills of the team, and to have a process for selecting persons with the necessary qualifications and experience. In addition, responsibilities must be defined, including the responsibility for holding all team members accountable for their performance.

The individuals involved in selecting and implementing the privatizations are seconded from ministries or contracted from private sector firms. Each team is to include a ministry representative with knowledge of the operation being privatized. In addition, knowledgeable individuals are available to all teams for consultation on specialized matters such as business valuations and legal issues. Responsibilities and conflict of interest guidelines have been clearly defined.

Cabinet Approval

If the detailed evaluation results in a recommendation to proceed, a proposed plan for completing the project must be drawn up. This plan defines the scope of the project, the method of privatization, and any pre-qualification criteria for bidders. However, it does not consider possible ways of enhancing the price received for the business by preparing it for privatization.

In some circumstances, the vendor of a business can increase the selling price by making the business or the purchase arrangements more attractive to the buyer. This might be done by restructuring the assets or their financing, or by upgrading information systems. In some cases, the additional sale proceeds may outweigh the costs of preparing a business for sale. We believe the Government should review each privatization to determine if net benefits could be achieved.

The detailed evaluation and proposed plan that are prepared for a project are reviewed by the Privatization Implementation Committee. This committee was established to coordinate the Government's privatization efforts. At the time of our audit, it was made up of three deputy ministers who reviewed all the plans and met frequently with the privatization teams. The committee has not formally documented the detailed review criteria it uses, and has had no need to do so. Its main concern is to ensure each project is consistent with the privatization principles.

If it is satisfied with a plan, the committee seeks Cabinet approval to implement it.

Implementing the Privatization

The implementation process is shown in Figure 2.2. We believe it gives adequate consideration to value for money when it includes a public bidding process. However, in our opinion, when public bids are not received, the process cannot provide the information needed to evaluate the value-for-money consequences of privatization decisions.

Expressions of Interest

The implementation process starts with a public call for expressions of interest. This step may be delayed in cases where employees have initiated a proposal to privatize their own operation, in order to allow them to have the first opportunity to make a fair deal.

Valid Employee Groups

Project directors first see whether a "valid employee group" has expressed interest in the proposal by initiating it or by responding to the call for expressions of interest. We found clear criteria for the qualification of employee groups as valid purchasers.

Some employees may not have the expertise to prepare a proper proposal. The Government provides valid employee groups with training to build their business skills, and with the services of a business consulting firm. In addition, it provides them with detailed outlines, forms, and instructions to follow in preparing their proposals.

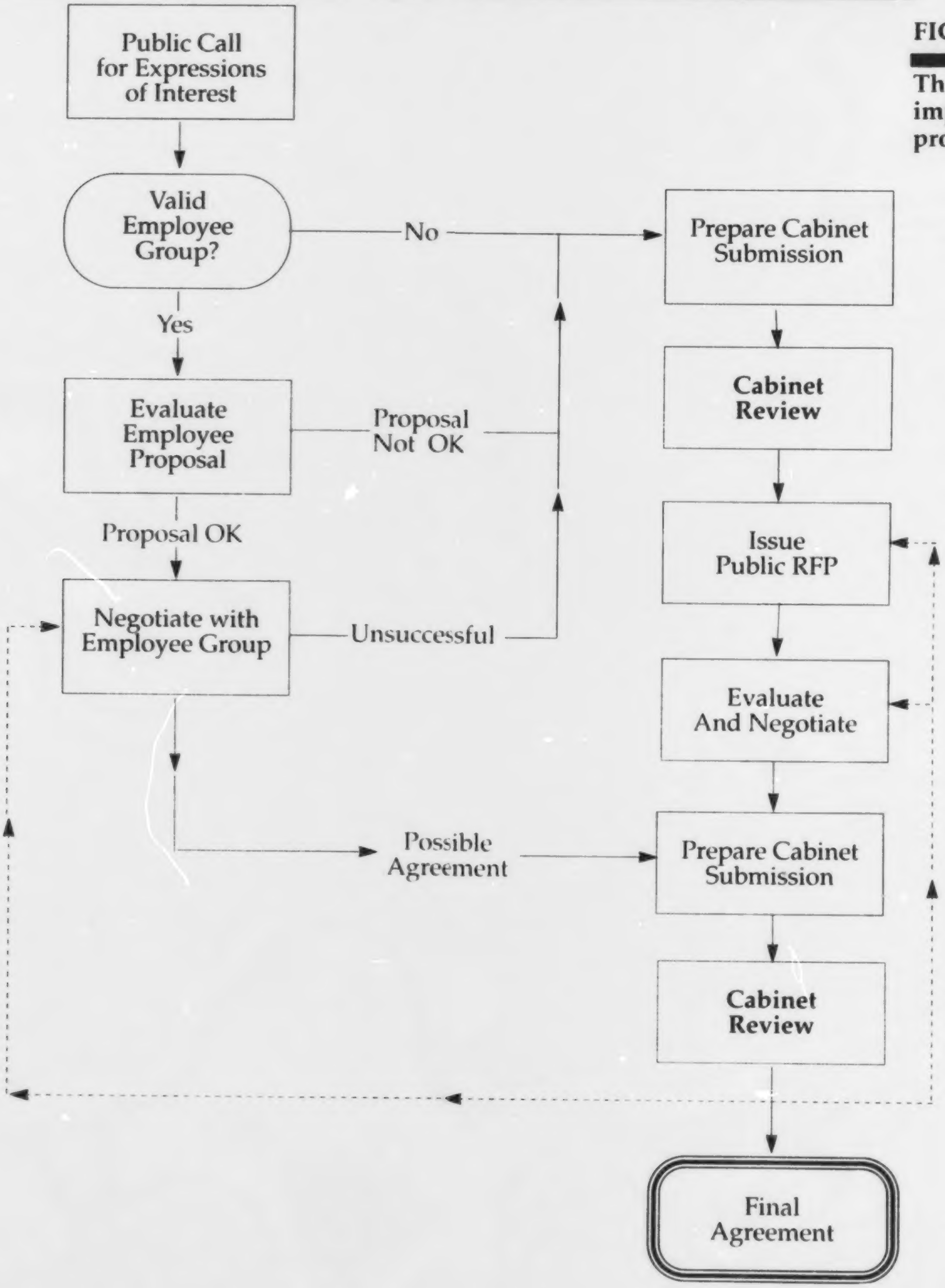
Evaluating Employee Proposals

Project directors evaluate employee proposals using the same standards they would apply to public bids. However, certain incentives are allowed to valid employee groups. For instance, project directors give preference to employee bids that are within 5% of what would otherwise have been the successful bid. In certain cases, special financing arrangements and a longer term for the initial contract may also be considered.

We again found that the guidelines given project directors for this purpose specify what to evaluate, but not how. To reduce the risk of project directors inconsistently evaluating these proposals, the Government again relies on the judgments of the individuals assigned to the project.

FIGURE 2.2.

The implementatic process


Public Call for Expressions of Interest
Valid Employee Group?
No
Yes
Evaluate Employee Proposal
Proposal Not OK
Proposal OK
Negotiate with Employee Group
Unsuccessful
Possible Agreement
Prepare Cabinet Submission
Cabinet Review
Issue Public RFP
Evaluate And Negotiate
Prepare Cabinet Submission
Cabinet Review
Final Agreement

We believe this risk could be reduced further. The general guidelines applying to all privatizations could be more specific. For instance, they could indicate how close the bids should be to the valuations independently obtained by the project team. In addition, the project team could specify the evaluation criteria and their relative importance before asking for bids in each particular case.

Negotiations with Employee Groups

Very early in the process—in fact, immediately following Cabinet's approval of a project—the project team begins preparing for negotiations. This includes gathering documentation and preparing for a public call for proposals. It also includes engaging outside business consultants to begin preparing a business valuation, supported by appraisals of real estate and physical assets. The process requires a preliminary valuation to be completed before any negotiations begin.

The process is intended to result in an agreement that reflects a fair market price for the privatized business and assets. The manual supplied to project directors describes the first objective of the bidding process as being: "To make a fair deal for the taxpayer. This means a sale price that properly reflects the business opportunity, and contracts that capture savings available in the open market."

In theory, business valuations provide reasonable estimates of the value of a business. In practice, these estimates are imprecise. Business valuators using the same approach to valuing the same business may come up with very different conclusions.

Business valuations of government operations are particularly difficult to do well. Government accounting records usually do not reflect the full costs of separate ministry operations. Because of the nature of the separate "business," there may have been no need to allocate overhead expenses, calculate transfer charges, or keep detailed revenue records. Also, the Government does not keep track of the historical or depreciated cost of its assets. Fixed assets of the Province are recorded at a nominal value of $1. In most cases, therefore, certain fundamental historical information will be nonexistent, incomplete, or unreliable.

In addition, the valuator may be unable to project future costs and revenues with any accuracy. The business can change significantly when moving from the public to the private sector. These changes should be reflected in the purchaser's business and marketing plans. In many business sales in the private sector, the vendor can effectively challenge those plans because it employs people who have been operating the business. However, with government privatizations through employee groups, the persons best able to challenge the business plans may be sitting on the other side of the negotiating table.

These types of difficulties serve to exaggerate the uncertainties in an already imprecise field. A business valuation provides an estimate of the fair market value of a business. That estimate is usually provided in the form of a range. We believe that in these circumstances, the range estimate would be too wide, and/or the valuator's report would be too heavily qualified, to be useful.

The best test of market value is through an open bidding process. Without this, government negotiators must rely solely on the business valuations. We believe the project teams should obtain public bids for the assets and business being privatized before negotiating with employee groups.

Public Requests for Proposal

At any stage in the process, the project team may conclude that it cannot strike a fair deal with a valid employee group. This may be because no valid group has expressed interest, because the employee proposal fails to meet basic standards, or because the parties are unable to reach an agreement. In any of these events, the project team is to recommend immediate issue of a public request for proposal (RFP).

As mentioned above, the project team actually begins preparing for RFPs at the beginning of the implementation process. One reason for this is that employees are to base their bids on the same information that would be provided through a public RFP. Of course, employees will generally have more information available to them since they will have been operating the business. However, the process recognizes that employees should not be given any more or less information than others would receive through a public RFP for purposes of preparing a bid.

The process acknowledges the RFP as crucial to obtaining a fair market price for the privatized business and assets. Project directors are required to review the draft RFP thoroughly to ensure it is attractive but not unrealistic. The key features of an RFP have been defined, and a standard format has been established for project directors to follow. The RFP receives much more attention than does the information provided to employee groups. Because of this, we feel there is some risk that employees will not be given the same information that others would receive through a public RFP.

This risk could be eliminated by issuing, or at least preparing, public RFPs earlier in the process. Employees and others could respond to the same document, which would make clear the preference allowed to valid employee groups.

Evaluating Public Proposals

Project directors follow the same guidelines described above to evaluate public bids and negotiate with public bidders.

Employee groups are free to rework their bids and respond to the public RFP. If they do, they enjoy a 5% price preference. This policy satisfies one of the principles of the privatization program favoring arrangements that encourage employee ownership. It applies only to the initial agreement; upon renewal of any contracts to supply goods or services to government, employee groups do not receive a price or other preference.

Cabinet Submission

When the project team negotiates a possible agreement, it submits that agreement to the Privatization Implementation Committee. The committee reviews the agreement and, if it feels it is a good one, submits it to Cabinet together with certain specific information, including:

- an independent business valuation, taking into account the price received for physical assets, as well as the value of government contracts and any other intangible assets;
- an analysis of the operational savings to government over the term of any government contracts;
- a summary of the financial and management resources available to the purchaser; and
- a discussion of public interest issues, including safety and service standards.

In addition, Treasury Board staff routinely prepare financial impact assessments for all Cabinet submissions, and Cabinet has access to all of the other information generated throughout the process.

Cabinet may base its decision on a wide range of factors. The process should provide it with enough information to evaluate the value-for-money consequences of that decision. We believe this can happen when public bids are received. However, the process allows the Government to reach an agreement with employee groups without going through a public bidding process. In these cases, the sole indication of the fair market value of the business being privatized is a business valuation. We believe the business must be exposed to the market to provide Cabinet with the information it needs to judge whether the agreement results in a fair return to the taxpayer.

Monitoring the Privatized Operation

After the business is privatized, there will often be an ongoing contract administered by the Government. This is nothing new. Ministries have for years managed contracts for private sector delivery of goods and services. However, the use of contracts has increased in recent years, underlining the importance of effective contract management.

In early 1988, the Government held a series of contract management workshops. These and similar training sessions reviewed the parts of Treasury Board's General Management Operating Policy Manual that cover government-wide procedures for all aspects of contract management.

Ministries are expected to develop detailed procedures to add to Treasury Board's general guidelines. Privatization project leaders are specifically responsible for providing advice in this area.

Ministries also need specific procedures to capture and summarize reporting information. They must report certain information for all contracts quarterly, showing separately those contracts resulting from privatization initiatives.

We did not review the detailed procedures established by the various ministries, but we believe the process can provide them with enough guidance to enable them to monitor privatized operations effectively.

Looking Ahead

The Legislative Assembly should expect the Government to continue to refine the procedures used to identify, implement, and monitor privatizations. While many of these improvements will simply fine tune the process, we believe one of them—obtaining public bids for all privatizations—is especially needed to address a significant deficiency.

With this change, the Government will still be able to "favor arrangements that encourage employee ownership." Without it, it will be unable to "ensure that its employees, communities, firms and the general public are treated fairly," or to "strike a good deal for taxpayers."

The Legislative Assembly should also expect the Government to follow the stated process and to provide it with reliable accountability information about completed privatizations.

Our Office intends to provide the Legislative Assembly with independent assurance about these expectations. We shall examine completed privatizations on a test basis and assess the actual processes followed. In addition, we shall report on the fairness of government statements about the value for money achieved in those particular cases.

Privatization: Early Initiatives

An examination of the first three privatizations completed under the Government's privatization program

Audit Purpose

In this audit, we looked at the process actually followed in completing the first three privatizations: the Queen's Printer publications section in Victoria; the soil, feed, and tissue laboratory in Kelowna; and the sign shop in Langford. In particular, we assessed whether the process followed in these cases was adequate to provide Cabinet with sufficient reliable information to evaluate the value-for-money consequences of its decisions. We also assessed the fairness of government representations relating to the value for money achieved from these privatizations.

Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances, except as discussed in the following paragraph.

We were unable to examine the Cabinet submissions prepared for these privatizations because the Government considers all Cabinet submissions to be privileged. Consequently, we could not determine whether the summarized information provided to Cabinet was consistent with the detailed information available.

Overall Conclusion

The Government did not follow a public bidding process to complete any of the first three privatizations under its privatization program. It did obtain other information about the value-for-money components of the sale agreements. However, in our opinion, this information was inadequate for Cabinet to evaluate the value-for-money consequences of its decisions.

Furthermore, we believe the Government has not provided the Legislative Assembly and public with sufficient accountability information about the value for money actually achieved from these privatizations. In our opinion, the Legislative Assembly and public require more contextual information, such as the appraised values of the assets sold and the estimated future costs to government had it continued to operate these businesses, so they can judge these transactions.

The First Three Privatizations

On January 21, 1988, the Government announced the first two completed deals under its privatization program. "These first two sales are small in size but large in significance," the Premier said in announcing the agreements. "They point the way to the successful conclusion of a series of privatization initiatives which we expect to announce in the weeks and months ahead."

The two sales were the Queen's Printer publications section in Victoria and a laboratory in Kelowna. They were followed by the sale of a sign shop in Langford in April 1988. All three were to employee groups.

The Queen's Printer publications section was sold to Crown Publications Inc., a new company formed by 6 of the 10 former employees. Three of the remaining four employees continued to work for the government; one elected to resign from the public service. Crown Publications Inc. agreed to pay $357,000 for inventory, furniture, and a contract to market and sell publications previously sold by the Queen's Printer. The contract is for a five-year period with an option to renew for an additional five years if satisfactory service is provided to the public.

The Ministry of Agriculture and Fisheries operated a soil, feed, and tissue laboratory (the "soil lab") in Kelowna. Three of the eight soil lab employees formed Griffin Laboratories Limited, which purchased the lab and gave jobs to three of the other employees. The other two employees remained with the government. Griffin Laboratories Limited paid $140,000 for the lab and for two contracts to provide lab services to the government. The contracts were with the Ministry of Agriculture and Fisheries and the Ministry of Environment and Parks, for five years and three years, respectively.

Tran Sign Ltd. was formed by 15 of the 20 employees of the sign shop operated by the Ministry of Transportation and Highways in Langford. Three employees took early retirement, and two chose to remain with the government. The new company agreed to pay $860,000 for the sign shop's property, building, equipment, and inventory. The deal also included a five-year contract to supply signs to the government.

The Process Followed

The Government followed a similar process to complete each of these three privatizations. However, the early initiatives were just that—early. The process reviewed in our first report had not been finalized and fully put in place by the time of these transactions. Nonetheless, the Government followed substantially the same process to complete its early initiatives as it is following now. Where different procedures were followed, they are described below.

The Government did not determine the value of any of these businesses on the open market. Accordingly, in our opinion, the process followed did not provide sufficient information to evaluate the value-for-money consequences of these privatizations.

Selecting the Projects

The current privatization process requires the Government to evaluate each privatization proposal to determine whether there are any major operational or other reasons for rejecting it. The guidelines for performing these detailed reviews were not established until after the early initiatives had been privatized. However, these initiatives all involved operations the Government had previously identified as ones that could be undertaken by the private sector.

Identifying an Appropriate Purchaser

Employees, private sector firms, and business consultants acting on behalf of clients indicated an interest in purchasing one or more of these government operations. The government first looked to see whether "valid employee groups" were among the expressions of interest. Although the criteria for qualifying as a valid employee group are more specific now, the groups that formed Crown Publications Inc., Griffin Laboratories Limited, and Tran Sign Ltd. met the criteria at the time.

The government completed these privatizations with the employee groups. Its stated process, however, required it to obtain bids from other parties "[i]f at any time it appears that a deal [with an employee group] cannot be made that is *demonstrably* both fair to the employees and to the taxpayer." (Italics added.) While the government did not obtain any information that indicated the agreements were unsatisfactory, neither, in our opinion, did it obtain sufficient information to demonstrate that the deals it recommended to Cabinet were fair to the taxpayer. Therefore, we believe that the government should have requested bids from other parties, to have complied with its stated privatization process.

Negotiating the Deals

One of the Government's main objectives in implementing any privatization, according to the manual supplied to the privatization project directors, is to "make a fair deal for the taxpayer." This, the manual explains, "means a sale price that properly reflects the business opportunity, and contracts that capture savings available on the open market."

The Government did not sell any business opportunities independently of the physical assets or service contracts. In each of these cases, it sold complete businesses, or packages. However, to know whether the total agreement, or package, represented a fair deal for the taxpayer, as defined above, the Government needed information about each of the major value-for-money components of those agreements:

- the value of the assets being sold;
- the value of the business opportunities; and
- the future cost implications of the privatizations.

We found that while the Government obtained some information about each of the above, the process followed only provided it with adequate information about the value of the physical assets. Consequently, the process followed did not provide the Government with the information it needed to conclude that the privatization agreements included "a sale price that properly reflects the business opportunity, and contracts that capture savings available on the open market."

The Value of the Assets

The Government valued inventories based on recent counts and invoice prices. In addition, it obtained independent appraisals of the land, buildings, furniture, and equipment. We believe this was a reasonable process to follow in estimating the value of the physical assets sold.

Inventories

Inventory book values were based on historic costs or most recent invoice prices. These recorded values were written down to net realizable values. Queen's Printer's inventory of government books, acts, and regulations, recorded at a cost of $685,000, was written down by 54% to $315,000. The sign shop's inventory was similarly written down by 50% from $636,000 to $318,000.

The Government found that Queen's Printer inventory represented several years' supply of many products. At the same time, it noted that this inventory is subject to obsolescence, since there is little demand for old acts and regulations once new legislation has been passed. The Government agreed to write off the portion of inventory that exceeded a two-year supply.

The sign shop inventory was similarly written down to its estimated net realizable value. The inventory was known to contain damaged goods, old stock, and materials either no longer used or cut to discontinued sizes. The Government accepted an offer from the employee group to sell this inventory at 50% of its book value, which was based on the most recent invoice costs. It should be noted that the "most recent invoice cost" would exceed the actual cost to government for older stock.

"Net realizable value" is defined as the expected net proceeds from sale less the additional costs related to completing the sale. We believe the principle of writing down inventories to net realizable value is sound, and that the Government followed a reasonable process to apply this principle. However, we did not attempt to verify the reasonableness of the write-downs. To do so, we would have needed access to the employee groups' sales and inventory records. These records were not available to us.

Fixed Assets

The Government received independent appraisals of the land, buildings, furniture, and equipment sold. We believe this process provided the Government with sufficient information to negotiate the selling price of the fixed assets. A summary of the information obtained is as follows:

	Appraised Value	Selling Price
Queen's Printer	$36,000	$36,000
Soil Lab	$210,000-470,000	$130,000
Sign Shop	$656,000	$542,000

Our comments in this area are restricted to the appraisal of the soil lab's equipment, and the process followed by the Government to adjust the independent appraisals in this case.

The Government received independent appraisals of the soil lab's equipment on two bases: orderly liquidation, and market value for continued use. The appraisal company concluded that the orderly liquidation value of the equipment was $210,000, and that the market value for continued use was $470,000. The equipment was sold for $130,000.

The Government correctly observed that the appraisal company's estimate of orderly liquidation value did not include "brokerage, auction fees, or other costs of disposal, if any." The Government estimated these and related costs, such as rent during the liquidation period and severance pay, to be up to $206,000. It thus concluded that the net amount it could expect to receive on liquidation would be $4,000 and, therefore, that any offer for the equipment in excess of that amount would have been better than liquidation.

The Government also correctly observed that the estimate of market value for continued use "assumes that the prospective earnings will provide a fair return on the appraised value of the assets." That is, no group would pay $470,000 for the equipment unless it felt it could earn enough money with that equipment to pay back its investment.

According to the Government's projections, the soil lab could be expected to earn about $30,000 in each of the next five years. These projections included estimates for employee salaries and benefits, interest on funds the Government expected the purchaser would need to borrow to buy the lab, income taxes, and all other costs of operating the business. However, since the net projected earnings represented only a 6% annual return on the appraised market value of the equipment, the Government concluded that in this case, "the appraised [market] value is not appropriate."

After adjusting both of the independent appraisals, the Government accepted the employee group's offer of $130,000 for the equipment. Because the lab was not liquidated, we are less concerned about whether the Government had sufficient information to adjust the orderly liquidation appraisal. However, we have serious reservations about whether the Government had sufficient reliable information to adjust the appraisal of market value for continued use.

The Government's projection of the future earnings of the soil lab was necessarily based on a number of assumptions. While the Government's consultant produced the best estimates he could in the circumstances, he faced a number of difficulties in preparing them. These same difficulties prevented the consultants from preparing formal business valuations, as discussed later in this report. We believe that these circumstances also prevented the Government from gathering sufficient reliable information about the prospective earnings of the soil lab. Accordingly, we believe the Government had insufficient information to adjust the independent appraisal of the soil lab's equipment.

While the process could have led to public tenderings at this point, it did not. The main reason was that the assets were not sold by themselves. In each case, they were only one part of a larger package. The price received for any individual part of the package affected the prices of the other parts. Therefore, the Government needed to estimate the value of the other parts of the agreements.

The Value of the Business Opportunities

The three early privatizations included three 5-year and one 3-year contract to supply goods and services to, or on behalf of, the Government. They also provided opportunities to expand business to others. This was an important part of the agreements that had to be considered in completing the privatizations.

The price of a business is a function of what that business can be expected to earn. A purchaser does not buy a company's assets simply to acquire assets. He does so because he expects to generate earnings from those assets. The Government contracts and business opportunities inherent in the early initiatives similarly represented a potential to generate earnings. Accordingly, the Government needed to know the value of these business opportunities.

The stated privatization process calls for the Government to determine the value of business opportunities to ensure a fair price is obtained for them. More specifically, it requires the Government to obtain business valuations from outside business consultants before it begins to negotiate any deal. Negotiated agreements are to be submitted to Cabinet, together with certain specific information, including "independent business valuation[s], taking into account the price received for physical assets as well as the value of government contracts and any other intangible assets." The Government did not obtain formal business valuations for any of the early privatizations.

The Government did attempt to prepare business valuations. However, its consultants noted that the accounting records did not keep track of the full costs and revenues of the separate ministry operations, and that the historical cost patterns could be expected to change with a move from the public to the private sector. In addition, the Government did not believe it could obtain reliable and complete information from the employee groups—who would otherwise be the best source of information—because of their conflicts of interest in these cases. The Government's business consultants did provide advice covering a broad spectrum of issues relating to the privatization initiatives. However, they all agreed that formal business valuations could not be prepared in these cases.

The Government therefore decided that it would accept an agreement that allocated no proceeds to the business opportunity, as long as that agreement reflected an adequate price for the physical assets sold, and provided net ongoing cost savings to the Government.

The Future Costs

The early initiatives all included ongoing contracts to provide goods or services to the Government. Like any other contracting-out situation, it was important to identify the ongoing cost implications of these contracts. This involved two steps: determining the costs of obtaining the goods and services on the open market, and establishing that those costs were less than the Government's costs of providing them directly.

The first step—determining the costs of providing the goods and services on the open market—recognizes one of the principles underlying all government spending. The Government does not purchase a product or service solely because a supplier can provide it at a lower cost than the Government's cost of production. For instance, if a tire manufacturer could show the Government that it could supply tires for less than what it would cost the Government to make them, the Government would not immediately place a tire order with that manufacturer. First, it would determine what other tire manufacturers would charge.

The Government did obtain price lists from other laboratories and sign manufacturers, and tried to estimate the prices that would be charged for the volumes represented by the government contracts. However, at least in the case of signs, the Government found it was difficult to obtain prices for the quality of products and services desired. It did not ask for bids or otherwise actually test the open market and, accordingly, we believe that the process followed in these cases was inadequate to demonstrate that the contracts "capture savings available on the open market."

The second step required the Government to determine its own costs of providing the goods and services directly. If the best price that could be obtained on the open market were greater than the Government's cost of production, it would not be cost-effective to "buy" rather than "make" the product. Thus, the Government's own costs of production establishes the value-for-money upset price—the price beyond which it would not be cost-effective to contract out.

Our first audit report on the Government's privatization program concluded that, in most cases, "certain fundamental historical information will be nonexistent, incomplete or unreliable," since government accounting records usually do not reflect the full costs of individual ministry operations. The Government found this to be true in these particular cases, and thus it had difficulty in accurately projecting future costs if government were to continue to run these operations directly.

The Government's consultants pointed out numerous problems with using the existing accounting records to project the future costs. There had been no need to account for these operations as separate "businesses" in the past, and the records were not suited for this purpose. Even if the records had been complete and accurate, some assumptions and adjustments would have been needed to project changes in other net costs to government. For instance, the Government could be expected to earn additional income and social services taxes from the private sector companies. On the other hand, the Government would likely incur additional costs to monitor and enforce the service contracts.

The Government did not analyze its projected future costs to the kind of detail or precision suggested in the preceding paragraph. It felt that the costs of such an exercise would outweigh the benefits, and that it would not be practical to complete these detailed analyses within an acceptable time frame. However, the Government did attempt to project its future costs.

The Government's consultants reviewed the historical accounting records with ministry personnel who were familiar with these particular business operations. Where they felt it was appropriate, the consultants made adjustments to this base data, using assumptions and estimates as necessary. In this way, the consultants estimated the future costs that would be incurred if the Government were to continue to operate these businesses in the future. They estimated that these amounts were greater than those that will be paid under the service contracts.

The Government's estimates do not reflect the costs of monitoring and enforcing the service contracts, or of retraining and relocating the employees who stayed with the Government. Nor do they reflect the one-time costs of preparing for and implementing these privatizations. In addition, they do not consider the effects of the asset sales: at the end of these contracts, the Government will no longer own certain fixed assets that it could either use or sell at that time. On the other hand, the Government's estimates also ignore the indirect revenues and reductions in central agency and ministry overheads that will result from these privatizations.

In our opinion, the process followed by the Government in these cases was reasonable, given the size of these operations. We believe that while the estimates prepared were imprecise, they provided sufficient information for the Government to conclude that the negotiated contract prices were lower than its upset prices.

The Total Package

In summary, the process followed by the Government provided it with some information about the major value-for-money components of these agreements. The Government estimated the value of the physical assets and, while it found it was unable to prepare formal business valuations, it had information to indicate that the privatizations would result in ongoing cost savings. In addition, the agreements all provided for employee ownership of businesses that would continue to operate in the communities where they had been established. For all of these reasons, the Government concluded that the deals were "fair" both to the employees and to the taxpayer.

In our opinion, the process actually followed by the Government in these cases did not provide sufficient information to evaluate the value-for-money consequences of these privatizations. In particular, the Government did not follow a public bidding process which would have established the prices that would have been paid on the open market for the physical assets and business opportunities, and the prices that would have been charged for providing services in future. Without this information, we believe the Government cannot demonstrate that these deals are "fair" both to the employees and to the taxpayer.

Representations as to the Value for Money Achieved

In our opinion, the Government has not provided complete information about the value-for-money implications of these privatizations.

By the time of our audit, the accountability cycle had not been completed. The Public Accounts had not been released, and ministries had not submitted their annual reports to the Legislative Assembly. However, in the 10 months following these sales, the Government made a number of public statements through the media with respect to these privatizations.

Representations Made

In announcing the sales of the soil lab and Queen's Printer publications, the Premier stated that "between them, the two sales . . . bring 1/2 million dollars to the provincial treasury. More importantly for the long run, as a result of these sales, we will be saving the British Columbia taxpayer around $180,000 a year while still providing comparable service at a comparable price." The sale of the sign shop, the Government said, would "bring benefits to the province over five years [that] are expected to exceed $500,000. This includes $200,000 of operational savings . . . [and] approximately $375,000 to $450,000 in interest over five years from the Privatization Benefits Fund where the sale proceeds will be held."

Asset Sale Agreements

The Government also announced the price paid by the employee groups for the physical assets. However, it did not disclose the book values or appraised values of those assets. We believe the Legislative Assembly and public need to know the estimated market values as well as the selling prices before they can judge whether the asset sale components of the privatization agreements are "fair."

Ongoing Cost Savings

As mentioned in the preceding section, we found that the Government had sufficient information to conclude that the negotiated contract prices were lower than its costs of providing these goods and services directly. However, we did not find detailed support for the Government's claim that precise net cost savings would result from these privatizations. Accordingly, we are unable to express, and we do not express, any opinion on the fairness of the Government's representations about future cost savings.

Although we had insufficient audit evidence to conclude as to the accuracy of the representations made, we can comment on their completeness. In this connection, we noted that the Government provided no information that would enable the Legislative Assembly and public to put the projected cost savings into perspective. This is similar to our concern about quoting only the selling price of the physical assets. The projected cost savings were mentioned, but not the projected costs. This makes it very difficult to assess the significance of the quoted figures.

The future cost savings claimed as a result of the privatization of the soil lab amount to 22% of the Government's estimate of its own costs of operating the lab, which it projected to be $3 million over 5 years. However, the $200,000 of operational savings claimed for the 5 years of the sign shop's contract represent less than 3% of the $7 million the Government estimated it would have cost it to operate the shop directly over the same period. Similarly, the annual savings claimed for Queen's Printer are less than 3% of the 1988 projected sales figure quoted in the tender document provided to the employee group.

Looking Ahead

The Legislative Assembly should expect the Government to determine the value of the operations that it privatizes before it completes the privatization. We recognize that a "fair" deal for taxpayers does not necessarily mean obtaining the highest price, but the Legislative Assembly should expect the Government to have sufficient information to evaluate the value-for-money consequences of its privatization decisions. Therefore, we believe the Government should refine its process to require public bids in all cases. Employees and others could respond to the same request for bids, which would make clear the preference allowed to employee groups and to bidders who provide ongoing employment for the current employees, or who satisfy other criteria that the Government considers important to the privatization.

As a minimum, the Legislative Assembly should expect the Government to follow its stated process for all privatizations. In particular, it should expect the Government to follow a public bidding process when it is otherwise unable to demonstrate that the deal would be a fair one for both the employees and the taxpayer.

It is questionable whether the Government can demonstrate a fair deal to the taxpayer without an open competition. This would require quite precise asset valuations, business valuations, and estimates of ongoing cost implications. For most government operations, we believe it to be very difficult to estimate the value of the business and the savings available on the open market without going through a public bidding process.

The Legislative Assembly should also expect the Government to provide it with complete, reliable accountability information about the value for money achieved from completed privatizations. This should include information about the value of the assets (including any government contracts) sold, as well as information about the future service levels and the ongoing costs of those services to the Government and to the public.

Privatization: Highways

A review of the privatization of road and bridge maintenance operations in the first of 28 contract areas throughout the Province.

Audit Purpose

In this audit, we looked at road and bridge maintenance operations for southern Vancouver Island. More specifically, we evaluated whether the process followed to privatize these operations was adequate to provide Cabinet with sufficient reliable information to evaluate the value-for-money consequences of its decision, and we assessed the fairness of the Government's representations relating to the value for money achieved from this privatization.

Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances, except as discussed in the following paragraph.

We were unable to examine the Cabinet submissions prepared for this privatization because the Government considers these documents to be privileged. Consequently, we could not determine whether the summarized information provided to Cabinet was consistent with the detailed information available.

Overall Conclusion

In our opinion, the process followed to privatize road and bridge maintenance operations on southern Vancouver Island was adequate to provide the information needed to evaluate the value-for-money consequences of this privatization. Furthermore, we believe the representations made by the Government about this privatization were fair and sufficient for the Legislative Assembly and public to judge the value for money achieved from it.

The Privatization

Since September 1, 1988, provincial roads and bridges on southern Vancouver Island have been maintained by Victoria Highway Maintenance Corporation. Southern Vancouver Island was the first of 28 contract areas to be privatized. One of three contract areas on the Island, "southern Vancouver Island" encompasses some 1,700 kilometers of road and 143 bridges from the southern tip of Vancouver Island to the northern shores of Lake Cowichan.

Under the contract, the Government will pay Victoria Highway Maintenance Corporation $30.4 million to maintain roads and bridges over the next three years. The Province also sold light assets to the Corporation for $1.3 million, and leased land, buildings, and heavy equipment to it for the three-year term of the contract.

Victoria Highway Maintenance Corporation is a private company that was established specifically to bid on this privatization. Under the terms of the contract, the Corporation was required to post a performance bond and to carry adequate insurance. In addition, it agreed to subcontract at least 20% of the maintenance services, and to offer jobs to all of the affected government employees. The number of employees fluctuates with the seasonal nature of highways maintenance. Of the 96 staff employed at August 31, 1988, 68 took jobs with the Corporation and 28 remained with the Government.

The Process Followed

The Government followed its stated process to privatize road and bridge maintenance for southern Vancouver Island, except that it did not obtain an independent business valuation of the value of this business. Nonetheless, in our opinion, the process followed was adequate to provide the information needed by Government to evaluate the value-for-money consequences of its decision.

Selecting the Project

The Government already had considerable experience with contracting out road and bridge maintenance: 30% of highways maintenance in the province had been performed by private sector contractors in the recent past. As well, it knew that private sector contractors were maintaining highways in other jurisdictions, and thus it had a good basis for concluding that the function could be transferred to the private sector. However, to ensure value for money was achieved from the privatization, the Government also realized that it had to structure, or package, the deal properly.

Contract Areas

The Government recognized that a single contract for maintaining the provincial network of roads and bridges would not have been desirable. This would have restricted competition (to the extent of creating a monopoly), and would have made it very difficult to maintain services if the contractor failed to perform. Accordingly, one of the packaging considerations was the number and size of contract areas.

The Ministry of Transportation and Highways had previously divided the province into 6 regions, 37 districts, and 148 foreman areas. After reviewing the required road and bridge maintenance activities in the province, the Ministry recommended that the province be divided into 24 roughly equal contract areas. Based on this and other considerations, Cabinet decided on the 28 areas that were eventually established. Thus, if the contractor for southern Vancouver Island fails to perform, the Government can turn to 27 other contractors, 2 of whom will be operating on the Island. We believe the Government was prudent to structure the deal in a way that gave it this flexibility.

Length of the Contract

Another important packaging decision was the length of the maintenance contract. The Government realized that a longer contract would provide the contractor with more security, and hence increase the value of the contract to the bidder. However, a shorter contract would reduce the Government's risk of fixing inappropriate standards or rates. We believe the three-year term established was reasonable.

Service Levels

The Government also had to take steps to ensure that service levels would be maintained after the privatization. Previously, the Government had defined most of its service levels in terms of inputs. For instance, it required a certain volume of road base repair work to be done each day, using specified crew sizes, materials, and equipment. Under privatization, however, these definitions had to be reworded in terms of outputs, or results, that the contractor would be expected to achieve. Thus, the contractor is now expected to perform such road base maintenance as is required "to maintain and restore road bases to a well drained, strong and stable condition." Performance standards go on to specify when road base work is required and what the Government means by "well drained, strong and stable" ("such that they can withstand maximum legal vehicle loading without damage to the travelled surface"). This allows the contractor flexibility in the methods used to achieve the desired results, and makes it more practical for the Government to monitor contractor performance.

Approximately 60% of the dollars spent by the Ministry of Transportation and Highways on maintenance activities in 1987 had been covered by the old, input-oriented, service level definitions. These definitions included the purposes of the activities, as well as the methods and resources to be used. We found that the old wording of the broad objectives was identical or very similar to the new wording of the maintenance service standards that the contractor is required to meet.

For the remaining 40% of the road and bridge maintenance activities carried out by the Government in the past, service levels had not been documented. Employees simply "knew" what was required. In these cases, the Government developed and documented standards (including priorities and response times) to prepare for this privatization. The district personnel we interviewed during this audit advised us that these standards meet or exceed the levels of service provided by the Ministry of Transportation and Highways in recent years.

The Government also chose to split the maintenance contract into two parts: routine and annual. Routine maintenance is the work necessary to keep the highways clean, clear, and safe for the travelling public. Examples include surface grading, snow removal, and litter control. Annual maintenance, on the other hand, includes more discretionary tasks that are required to maintain or extend the life of the highway system. For example, every year some cracks in the roads are sealed and some culverts replaced. It would be unreasonable and unnecessary to seal every crack on every road or to replace every culvert every year. The Government had previously followed a road maintenance schedule that was designed to minimize the life cycle costs involved. Under privatization, the Government needed a way to ensure that enough discretionary activities were carried out each year to avoid heavier repair bills in later years. The annual maintenance part of the contract addressed this concern.

Annual maintenance, which accounts for over 25% of the total contract ultimately negotiated for southern Vancouver Island, sets out the specific levels of discretionary activities to be carried out over the length of the contract. We found that these levels of service were comparable to those done by the Government in the immediate past. However, while they represented the best estimate of the future maintenance required, the Government knew that it could not forecast those requirements precisely. Accordingly, it structured the agreement to require the contractor to submit an annual maintenance plan at the beginning of each year. In this way, the Government can adjust future discretionary activities to reflect the relative needs in those years. However, the total dollar amount of the annual maintenance contract, which was subsequently negotiated at $7.9 million over three years, cannot be exceeded.

The Government also negotiated rates for additional and emergency maintenance activities, although it retained the right to use any contractor if the services were required. This secured a source of supply without locking the Province in to a single contractor.

The Government recognized that it was not enough simply to specify the service level standards that contractors would be expected to meet in providing routine, annual, additional, or emergency maintenance activities. It also had to ensure that these standards were met. By the time of our audit, the Ministry of Transportation and Highways had begun to implement a Quality Assurance Program designed to provide additional staff and new procedures to monitor the performance of contractors.

Assets

Another key part of the packaging for this deal was to decide which assets should be sold to the contractor, and which should be leased. The Government decided that the land, buildings, and heavy equipment should be leased, and we believe this decision was sound. It reduced the amount that a contractor would be required to pay at the beginning of the contract, and therefore increased the number of potential bidders. This, in turn, increased the likelihood that taxpayers would receive value for money from the privatization. At the same time, it provided the Government with a great deal of flexibility. By retaining ownership of the major assets, the Government is better prepared to carry out maintenance activities in the event of a contractor default, to change contractors at the end of the first contract, or to resume providing maintenance services directly.

Selecting the Purchaser

Victoria Highway Maintenance Corporation was selected as the best bidder in an open tendering process. In our opinion, this process was adequate to ensure the right purchaser was selected.

In response to its advertisements, the Government received 68 expressions of interest from private sector companies and individuals who were interested in providing road and bridge maintenance services on Vancouver Island. Before dealing with any of these responses, the Government first sought to determine whether it could strike a fair deal with an employee group.

In February 1988, Malahat Contracting Ltd., a new company representing almost 70% of the employees, was designated as a valid employee group. However, this company did not produce a financial and operational plan that demonstrated it had the capability to provide the required services over the length of the contract. Accordingly, the Government told the company that it was going to issue a public proposal call. The company was invited to respond to the public tendering, in which case it would still obtain the 5% preference allowed to employee groups under government policy, but it chose not to respond.

The public proposal call was made through a nine-volume request for proposal (RFP) issued in April 1988. All those who had expressed interest in this privatization were advised in writing that the detailed RFP was available and that a bidders' conference would be held in May. In addition, the Government advertised in the *Times-Colonist* that the proposal call information package was available and could be purchased for $500. Interested persons could also examine the package at the Ministry of Transportation and Highways before purchasing it. By May 9, 1988, 11 companies, 10 of which had attended the bidders' conference four days earlier, had purchased a proposal call package. Six of these firms submitted prequalification papers outlining, among other things, their managerial and financial capabilities and willingness to take the existing employees. All of these firms met the prequalification criteria, and on May 24, the Government invited each to bid. The deadline for proposals was set as June 24.

Four firms submitted bids. Victoria Highway Maintenance Corporation's bid was considered to be the best according to predefined criteria, which assigned the greatest weight to bid values, but also considered matters such as operating plans, financial capability, quality control, and regional development. The Government negotiated with that company, which submitted the lowest bid for providing maintenance services over the next three years. By way of comparison, this company offered to provide these services for almost $2 million less than the next bid, and $23 million less than the highest. Through negotiations, the bid price was reduced even further.

Negotiating the Agreement

The Government followed a process that provided it with information about all of the key value-for-money elements of the privatization, except for the value of the business opportunity. It did consider preparing a business valuation, as called for by the stated process, but concluded that the cost of such an exercise would outweigh the benefits. Although the process followed did not provide all the information required to evaluate the value-for-money consequences of this transaction, it did provide a reasonably complete basis for negotiations.

To negotiate this agreement, the Government needed to know:

- the value of the assets sold;
- the value of the assets leased;
- the value of the business opportunity; and
- the ongoing costs to government of maintaining the roads and bridges on southern Vancouver Island.

Value of the Assets Sold

The Government obtained an independent appraisal of the light equipment and tools. As well, it estimated the value of materials, parts, and fuel based on current invoice prices. We believe this process provided the Government with sufficient information to negotiate the selling price of the physical assets sold. In this case, the available information about the value of the assets sold was as follows:

	Estimated Value	**Negotiated Selling Price**
Light equipment	$1,118,000	$840,000
Materials	$ 557,000	$480,000

Value of the Assets Leased

The Government obtained independent appraisals of the land and buildings in all 14 of the existing highways maintenance yards on southern Vancouver Island. In addition, it calculated the lease rates for 57 pieces of heavy equipment and related attachments. These calculations were done by qualified individuals who knew the age, general condition, type, historic cost, and depreciated replacement value of the equipment. In our opinion, this process provided the Government with sufficient information to negotiate the rates charged for the assets leased.

In the case of land and buildings, the lease rates recommended by the independent appraiser were $378,000 to $473,000 a year. These rates applied to the 62,000 square feet of buildings previously occupied by the Ministry of Transportation and Highways on southern Vancouver Island. Victoria Highway Maintenance Corporation did not lease precisely the same buildings. It did not take about 3,800 square feet of this space, and it wished to have an additional 2,900 square feet of buildings constructed. The Government agreed to construct these buildings at its own cost, and to lease them and the other land and buildings (excluding the 3,800 square feet not required by the contractor) for $336,000 a year.

The lease rates for 57 pieces of heavy equipment and 36 related attachments were calculated by the chairman of the public sector Rental Rate Committee. This committee includes representatives from government ministries and crown corporations that use these types of equipment, and it calculates the maximum rates that they will pay when leasing equipment. The chairman, an employee of the Ministry of Transportation and Highways, advised us that he had complete information to do his calculations, and that he followed the same procedures used by his committee.

Of the 57 pieces of heavy equipment leased to the contractor, 47 were owned and 10 were leased by the Government. The rate negotiated on the owned equipment was $955,000 over the three-year term of the contract, approximately $131,000 less than the calculated value.

The 10 pieces of heavy equipment that the Government was leasing were subleased to the contractor for $110,000 a year, $5,000 a year less than the calculated amount. Although the structure of the Government's original lease agreement was such that we could not determine the specific amounts paid by the Government for these particular pieces of equipment, it appears that the $110,000 that will be paid by Victoria Highway Maintenance Corporation exceeds the amount the Government must pay under its original lease agreement.

The Government also calculated a lease rate of approximately $13,000 over three years for certain trade tools that were leased to Victoria Highway Maintenance Corporation. The negotiated agreement allows the contractor to use these tools without additional charge.

Value of the Business Opportunity

The stated privatization process requires the Government to obtain an independent business valuation, taking into account the value of any government contracts and intangible assets sold with the business. This information is to be submitted to Cabinet along with other data, so that Cabinet can evaluate whether the deal represents value for money. No business valuation was done for the southern Vancouver Island road and bridge maintenance operation.

The Government's business consultant felt it was indeed possible to estimate the value of this operation. However, he also felt that it would be difficult to value the business with much precision or certainty. That is, the estimate would likely be expressed in terms of a wide range. In addition, the estimate would only represent a "notional," or theoretic, value; it would not establish the amount a willing buyer would actually pay for the business opportunity. That amount could only be established through an open bidding process.

The consultant also recognized that the price paid for the business opportunity is related to the price charged under the future service contract. In fact, all the elements of a privatization are interrelated; the agreement can only be evaluated as a package. A contractor must be able to earn a satisfactory return on his investment. The more he has to pay for the opportunity to fill a contract and for the assets, the more he must charge for providing services over the length of that contract. Conversely, with a lower initial investment, he can provide the future services at a lower cost. Thus, the consultant believed that the net benefit gained by preparing a formal business valuation, which would involve time and money, would be marginal.

Accordingly, the Government decided not to prepare a formal business valuation in this case. Instead, it relied on an open bidding process to determine the prices that contractors would pay for the business opportunity, and the prices that they would charge to provide road and bridge maintenance services over the length of the contract. The Government's upset price was its own costs of providing those services. In other words, it would accept a deal that allocated no proceeds to the business opportunity, as long as that deal provided ongoing cost savings to the Government.

Although it would have been preferable to have had complete information before negotiating this agreement, we believe the Government's approach in these circumstances was reasonable. The approach followed, however, made it even more important for the Government to know its costs of maintaining roads and bridges on southern Vancouver Island.

The Costs of Maintaining Roads and Bridges

The Ministry of Transportation and Highways prepared analyses of its road and bridge maintenance costs. These analyses included all maintenance costs borne by the Ministry, including indirect costs such as computer charges and employee benefits. In addition, the Ministry hired consultants to determine the holding, or opportunity, costs connected with highways maintenance. Although the Ministry had never actually paid these costs, it realized there was a cost to Government associated with carrying inventories and equipment.

To prepare its analyses, the Ministry of Transportation and Highways used detailed accounting records that it maintained in addition to the government-wide accounting records. The Ministry's detailed records allowed it to produce financial statements for each district, reflecting overhead allocations and depreciation of the historic costs of fixed assets used in those districts. The Ministry further refined these records, which were reconciled to the main government-wide records on a regular basis, by itemizing the costs by contract area.

The Ministry also believed that the privatization of highways maintenance could lead to a reduction in central agency overheads, and to an increase in government revenues through social services taxes and income taxes. By the time the maintenance operations for southern Vancouver Island were privatized, however, the Ministry had only just recognized the potential for these additional net savings to government. They were calculated by another firm of consultants after the contract was signed.

We believe the process followed was adequate to provide the Government with sufficient information to negotiate the three-year maintenance contract. At the time of negotiating the contract, the Government's best projection of its maintenance costs over the next three years was $31 million. The contract called for the Government to pay $29.9 million over three years for the same services—a figure $1.1 million, or 3.5%, less than the projected government costs.

After the contract was signed, the Government continued to refine its estimates of the net cost savings that could be expected as a result of this privatization. The final estimates, which were compiled with the assistance of an international firm of Chartered Accountants, indicated that the preliminary estimates had been conservative: they showed net cost savings significantly greater than the original estimate.

The Government's estimates are not perfect. For instance, as mentioned previously, 28 employees chose to stay with the government. These employees, now "surplus" to the Ministry, must be placed into other positions, after retraining if necessary, in accordance with the BCGEU master agreement. By March 3, 1989, 19 of these employees had still not been permanently placed in other positions; they were temporarily carrying out other work assignments in the Ministry. However, the costs of retraining and relocating these 28 employees were not considered when the net costs of this privatization were calculated. In addition, the Government's estimates do not reflect the one-time costs associated with preparing for and implementing the privatization. Nonetheless, we believe the Government had sufficient information to justify its position that the negotiated contract price was lower than its upset price.

Representations Made

By the time of our audit, not all the Government's representations about this privatization had been made, because the accountability cycle had not been completed. Formal reporting through the Public Accounts and the annual report of the Ministry of Transportation and Highways for the 1989 fiscal year will not occur for over a year. In our opinion, however, the representations made by the Government provided reasonably complete and reliable information about the value for money actually achieved from this privatization.

In an August 1988 press release, the Minister of Transportation and Highways said: "The contract price of $29.9 million over three years is $1.1 million less than projected ministry costs of $31 million in the field delivery of maintenance services and district overhead. Additional accrued savings, not yet fully calculated, are expected to occur over the life of the contract through further reduction in Ministry overhead expenses at regional and headquarters offices. . . . In addition, government has signed an agreement to sell certain assets including materials, supplies and small tools for this contract area for a total of $1 million." The press release went on to indicate that "[t]he contractor has agreed that 20% of the work undertaken will be subcontracted to small operators through a competitive bidding process" and that "heavy equipment will be leased to the contractor and land and buildings will be made available under a license of occupation."

The above representations are supported by and consistent with the best information available at the time. In addition to the above statements, we feel the Government could have also disclosed the estimated value of the assets sold, and the amounts of the leases. However, in this particular case, we do not believe these omissions would have had an undue influence on the readers' assessments of the value-for-money implications of this privatization.

Looking Ahead

The Legislative Assembly should look for a final accounting for this transaction in the *1988/89 Public Accounts* and in the 1988/89 annual report of the Ministry of Transportation and Highways. To a large extent, however, these reports will only provide the budget, or estimate, of what the Government expects will be the value-for-money implications of this privatization. The Legislative Assembly should therefore expect the Ministry of Transportation and Highways to ensure the contractor provides the services as expected. In addition, it should expect the Government to provide it with sufficient accountability information about the results actually achieved as a result of the privatization.

Privatization: British Columbia Enterprise Corporation Loans

An examination of loans sold by the Corporation.

Audit Purpose

As part of its privatization initiatives, British Columbia Enterprise Corporation sold one loan receivable with a book value of $25 million, and entered into an agreement to sell another group of loans with a book value of $50 million. We reviewed the privatization of these loans to determine whether the Corporation obtained fair market value for them.

Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

In our opinion, the Corporation obtained fair market value for the loan sold, and it will obtain fair market value for the other group of loans when the agreement for sale is completed.

The Corporation

British Columbia Enterprise Corporation (BCEC), formerly British Columbia Place Ltd., is a provincial Crown corporation. In July 1987, legislation was passed which transferred the assets, liabilities, and responsibilities of British Columbia Development Corporation to BCEC, retroactive to March 31, 1987.

In keeping with the Government's intention to wind up BCEC, the Corporation's mandate is to sell its assets as promptly as possible for fair value. Excluded from the assets to be sold are those which, because of their special nature or because of public policy considerations, the Government may direct to be transferred to itself for ongoing administration or disposal.

The Corporation's mandate includes the following objectives:

- to manage the sale or transfer of assets and liabilities to permit the timely and orderly windup of all the operations and affairs of the Corporation and its subsidiaries;
- to conduct transactions in a manner that will bring credit to the Government's privatization program;
- to make the lands available for development by the private sector; and
- to encourage local and regional economic development.

The Corporation's operations are composed of two principal divisions: the Lands Division and the Business Finance Division. The Lands Division is responsible for lands held by the Corporation in 27 communities throughout British Columbia. These lands range from residential sites in the Lower Mainland to industrial parks in smaller communities. The Business Finance Division manages the Corporation's loan portfolio and is carrying out the privatization of the loans.

The Loan Portfolio

The Corporation's loan portfolio had a book value of about $253 million at August 31, 1988, when the loans were advertised for sale. The portfolio consisted of loans made directly by both BCEC and British Columbia Development Corporation, as well as loans made under government trust programs. Small- and medium-sized British Columbia businesses were given loans, on favorable terms, to help them establish or expand plants and facilities. The loans were made for the stated purpose of stimulating economic activity and diversification in areas of industrial manufacturing and processing. The Corporation also made a number of mortgage loans for properties that it had sold.

Selecting the Loans to Be Sold

A Privatization Advisory Committee, consisting of senior government staff and members from the private sector, was established in August 1988 to negotiate the sale of the loans.

Based on an assessment of the total $253 million loan portfolio, the Committee decided to offer for sale loans with a book value of $97 million, which it determined had solid market value.

The Sale Process

The Committee announced the sale of the loans through advertisements in the *Vancouver Sun* and the *Globe and Mail*. It then wrote an "Opportunities Document" outlining basic information about the loans offered for sale. This document was mailed to 380 financial institutions in Canada and also to those parties who responded to the media advertising. Follow-up telephone calls were made to the most likely purchase candidates.

Parties who wished to obtain further information paid a $1,000 non-refundable processing fee to obtain a "Detailed Information Memorandum", which provided additional information about the loans offered for sale. Thirteen parties requested the detailed Memorandum.

After reviewing the Memorandum, candidates wishing to pursue their interest in the loans could review the loan files for a non-refundable fee of $25,000. Three parties did so. After the review, the Committee held discussions with each of the parties and invited them to bid for the loans. Three bids were received. The Committee analyzed these bids and requested clarification where required. It then ranked these bids and obtained approval from the Corporation's Board of Directors and the Executive Council of Government to negotiate with the leading prospects.

The Sale Prices

In December 1988, the Corporation accepted a bid for one loan that had a book value of $25 million at August 31, 1988. It also entered into an agreement to sell another group of loans with a book value of $50 million at August 31, 1988. That sale will not be completed until required changes to legislation have been made. Our audit dealt with the privatization of these loans (Figure 2.3).

Private sector bidders were not prepared to purchase the remaining $22 million of loans that were offered for sale.

The Loan Sold

The Corporation received $18.1 million for the loan with a book value of $25 million.

The difference between the book value and the amount received, $6.9 million, represents a reasonable discount. We confirmed, through our own independent analysis of the risk associated with this loan, that the interest rate used to calculate the purchase price was reasonable. Therefore, we concluded that the negotiated sale price represents the loan's fair market value.

The discount resulted from two factors: the favorable interest rate stipulated at the time of the loan agreement, and the change in interest rates between the time the loan was negotiated and the time it was sold.

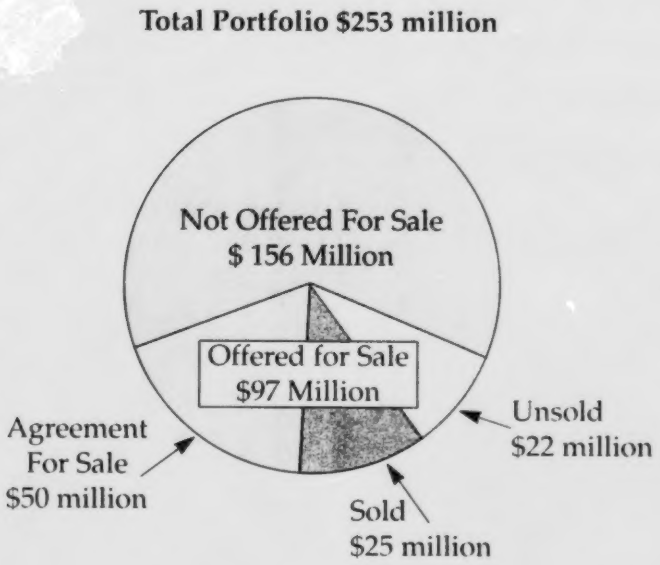


FIGURE 2.3.

British Columbia Enterprise Corporation loan portfolio, August 31, 1988.

The purchaser discounted its bid by $6.9 million, primarily in recognition of the terms of this loan. They require no interest to be paid until August 1990, and provide for interest at one half of the Corporation's prime rate from that date to June 1993, when the balance of the loan is to be paid in full. At the time the loan was made, the Government agreed to underwrite the difference between market interest rates and the rates stipulated in the loan agreement, because it wanted to achieve particular program goals. The purchaser's bid also reflects the difference between market interest rates at the time the loan was made and those prevailing when the bid was put forward. Accordingly, although the sale price was not equal to the book value, it did represent fair market value at the time of the sale.

The Loans Included in the Agreement for Sale

The Corporation also entered into an agreement to sell another group of loans for their book value plus $75,000. The sale is to be completed after required changes are made to legislation. We independently evaluated the risk associated with these loans and determined that the interest rates used to calculate the purchase price, together with the other provisions of the agreement, were reasonable. Therefore, in our opinion, the Corporation will obtain fair market value for these loans when the sale is completed in accordance with the agreement for sale.

Although the terms of the agreement make the purchaser responsible for administering the loans after January 31, 1989, the sale of the loans will be completed in four stages. The first stage took place on January 31, 1989. The Corporation received $30 million, the book value of the loans at the effective date of the transaction (November 30, 1988) and, in return, transferred beneficial ownership of the loans, included in the first phase, to the buyer. Between the end of August and the end of November, net repayments by borrowers reduced the book value of the loans included in the first phase of the sale from $33 million to $30 million.

The sale of the remainder of the loans covered by the agreement will be completed later in three separate transactions. The purchase price agreed on is the book value of the loans at the time the particular transaction is completed. The agreement calls for stages two, three, and four to close on April 30, July 31, and October 31, 1989, respectively. The loans included in each of these stages had a book value of approximately $5 million on November 30, 1988. Net repayments from borrowers reduced the book value of these loans from $17 million at the end of August, to approximately $15 million at the end of November. The agreement calls for the $75,000 in excess of book value to be paid when the last stage is completed on October 31, 1989.

Many of the loans included in the agreement for sale had interest rates that were below prevailing market rates at the time the Government agreed to make the loans. The Government agreed to make these loans to the borrowers at favorable interest rates because it wanted to achieve particular program goals. When marketing these loans, BCEC had the option of either selling the loans at a discount and letting the purchaser assume the obligation for the subsidies inherent in the favorable interest rates, or selling the loans at a higher value and reimbursing the purchaser for the future amount of the subsidies.

Under the terms of the agreement for sale, the obligation for the subsidy is retained by the Corporation. As a result, BCEC is required to pay a subsidy to the purchaser at regular intervals, to provide the purchaser with a return that is reasonable in relation to the risk associated with the loans being sold and the interest rates in the marketplace when the agreement for sale was reached. The Corporation has estimated the future cost of these payments to be $2.4 million. In addition, BCEC has agreed to reimburse a portion of the loss to the purchaser if specified loans cannot be collected by the purchaser by January 31, 1992. The maximum amount payable by BCEC if these loans prove to be uncollectible is $1.7 million.

The Government has agreed to provide a guarantee of performance by BCEC and its obligations under the agreement. At the time BCEC ceases to exist, the Government will assume the Corporation's obligations.

Looking Ahead

The $178 million loan portfolio remaining after the initial sale includes loans with a total value of $19 million which BCEC considers to be of commercial quality. The Corporation is in the process of selling these to the private sector and believes that some of these loans will be sold in the near future. Another loan valued at $70 million is expected to become marketable soon. The balance of $89 million of loans consists of special consideration and remedial loans which BCEC does not believe will be readily marketable in the near future. The Corporation intends to transfer these loans to the Ministry of Finance and Corporate Relations by March 31, 1989.

Response of the Ministry of Government Management Services

Introduction

This section sets out the ministry's response to the four audit reports prepared by the Office of the Auditor General on government's privatization program.

The ministry welcomes the audit. We believe it provides independent assurance that government has met its stated goals. It shows that the process provides a fair deal for all concerned: employees, communities, business firms and the taxpayer.

This response examines the audit findings within the context of government's broad policy goals for restructuring government. The response also qualifies and provides further elaboration on specific audit findings where the ministry believes this is required for a complete understanding of the issues involved.

The response challenges the audit team's finding that direct negotiations with employee groups fail to achieve value-for-money. We show how, in every instance where activities were privatized to employee groups, the process guarantees a fair deal for taxpayers.

We point out that government's goal to obtain a fair deal for taxpayers did not require that it extract the highest price. We note how government took special care to ensure that service contracts with employee groups provided ongoing cost savings and offers from employee groups provided a fair price for fixed assets and inventory being sold with the business. If these conditions could not be met, government proceeded to open competition through a public proposal call.

We show that the information available to Cabinet provided a reasonably complete basis for concluding agreements with the employee groups. Fixed assets and inventory were appraised. Professional business valuators provided advice about the value of the business. Upset prices based on the estimated value of the physical assets and projected costs of continuing the business in government were known. Proposed agreements included specific provisions assuring service standards. Also, as noted in the audit report, project teams were able to provide sufficient costing information to allow Cabinet to conclude that negotiated contract prices were lower than the costs of continuing the services within government.

In short, Cabinet was provided the information required to evaluate the value-for-money consequences of its decision to privatize.

Our response also shows how the criteria used by the auditors are inadequate to judge the privatization process. We point out that the need to obtain a fair deal for taxpayers was to be achieved within the context of government's broad policy goals for the program. Specifically, these goals were to:

- *Encourage employee ownership*
- *Provide continuity of work for government employees*
- *Ensure public safety and quality of service*
- *Support regional economic development*
- *Treat all parties fairly*

In our view, the success of the program cannot be properly judged without considering whether and to what degree the projects met these goals. Unfortunately, the audit did not address these important policy concerns.

For convenience, our response follows the sequence of the four reports. Thus, direct reference can be made to each of the areas examined by the auditors.

I. The Process

The audit team concluded that government's privatization process:

- *Should ensure that appropriate activities are selected for privatization.*
- *Gives adequate consideration to value for money when it includes a public bidding process.*
- *Provides sufficient guidance to enable the effective monitoring of contracts for privatized operations.*

The ministry agrees with this assessment. Government's privatization planning was based on sound principles. This reflects the province's considerable experience in this field. Even before the start of the new program, British Columbia was regarded as a leader in the privatization of social services. The province also learned valuable lessons from the successful privatization of several government enterprises in 1983 and 1984. Examples include Pacific Coach Lines, Hi-Tech Systems and Beautiful B.C. Magazine.

The province also studied and learned from the experience of others. The value of privatization in improving the way government works has been recognized around the world. Large scale programs have been undertaken in Britain, the United States and New Zealand. Privatization initiatives have also been undertaken elsewhere in Canada most notably by the Province of Quebec and the federal government.

When the current program was announced in October 1987, the province was able to move quickly to implementation. The selection process was defined and teams of experts, drawn from both the public and private sectors, were brought together to guide the new initiatives through an open, fair, consistent and thorough process to their successful conclusion.

Selecting Candidates for Privatization

The auditors noted there were clear guidelines for performing both preliminary and detailed evaluations of activities and programs considered for privatization, but that detailed criteria about how to do these evaluations were lacking. Nevertheless, the auditors concluded it would be inappropriate to establish a single set of criteria for all the various kinds of businesses being considered for privatization.

The ministry agrees with this conclusion. Project teams included individuals with the requisite knowledge and skills to perform the evaluations. Responsibilities and conflict of interest guidelines were clearly defined. Additional specialized resources were also made available as required. This approach has proven sound and will continue.

Preparing the Business for Privatization

The auditors recommend that government review privatization projects to determine if net benefits might be enhanced by making the business or purchase arrangements more attractive to the prospective buyer.

The ministry agrees. The selection process will be amended to include an assessment of ways to increase the value of projects during the detailed evaluation phase. While this assessment is not now a mandatory step in the selection process, project teams have adopted this approach in several instances where restructuring was considered essential to the development of a viable project.

Obtaining Business Valuations

The audit report notes that formal business valuations of government operations are difficult to do well. The reasons for this are several. There are inherent difficulties in using government historical cost information to forecast private sector operations. The nature of the business can change significantly when moving from the public to the private sector. The impact of service contracts with government cannot be properly evaluated until well into the negotiation process. Also, because most government services do not operate on a profit basis, there is an inability to quantify the value of goodwill.

For these reasons, independent consultants used in evalu projects were unable to provide government with formal private sector business valuations. Nevertheless, they did provide comprehensive business valuation advice on a broad spectrum of issues relating to the projects. This advice was more extensive than that which would have been obtained in a formal business valuation.

Negotiations with Employee Groups

The auditors suggest that government's policy favoring direct negotiations with employee groups, without first obtaining competitive bids, is inadequate to provide the information needed to evaluate the value-for-money consequences of privatization decisions.

The ministry disagrees. The preferred approach favouring direct negotiations with valid employee groups was a public policy decision made by Cabinet. This process was considered necessary to protect the public interest. It was clearly communicated to the public and all interested parties. In every instance, government is able to demonstrate that this process resulted in a fair deal for taxpayers.

It should also be noted that the ministry position reflects an underlying disagreement as to the appropriateness of the audit criteria used to determine whether taxpayers received fair value. The ministry does agree that the audit team's criteria cover important components in determining value-for-money. However, we do not agree that these criteria are sufficient to adequately address this question. Value-for-money cannot be considered separately from government's goals for the program.

Government did not regard privatization as an end in itself. Instead it viewed privatization as a means to improve the way government works. It was not government's objective to always extract the highest price. Indeed, the ministry concedes that it may have been possible to obtain a higher price for these businesses through a public bidding process. The need to obtain a fair deal for the taxpayer was to be achieved within the context of government's broad policy goals. These goals, which were given wide publicity at the program's start, were to:

- *Encourage employee ownership*
- *Provide continuity of work for government employees*
- *Ensure public safety and quality of service*
- *Support regional economic development*
- *Treat all parties fairly*

Meeting these goals required special measures in promoting and dealing with employee proposals. These measures included:

- *Two-day seminars to build business skills.*
- *Access to independent business advisory services.*
- *Expanded eligibility for government-funded training in financial management and business law.*

- *Funding of extended health, group life and dental plan benefits for government workers during the first six months of private sector operations.*
- *Direct negotiations with valid employee groups, without going to a public request for proposals.*

Although the approach was tailored to foster employee ownership, the process also ensured that direct negotiations with employee groups resulted in a fair deal for the taxpayer. Information considered by the Implementation Committee and submitted to Cabinet included the following:

- *The advice of independent business valuation experts.*
- *Appraisal of the fixed assets available for sale.*
- *Analysis of operational savings to government over the term of the proposed contract.*
- *Assessment of the financial and management resources available to the employee group.*
- *Evaluation of public interest issues, including safety and service standards.*

Project teams were instructed to ensure that employee proposals were based on the same information and met the same standards that would be provided through a proposal call. In those instances where it was concluded that it would not be possible to reach a deal that was demonstrably fair to both the employees and the taxpayer, government proceeded to open competition through a public proposal call.

It should also be noted that initial contracts with employee groups are for three to five years. As the agreements expire, contracts for future services will be tendered. This approach balances government's goals of encouraging employee ownership and ensuring continuing work for government employees with the need to obtain a fair deal for taxpayers.

Evaluating Employee Proposals

To reduce the risk of project directors inconsistently evaluating employee proposals, the auditors recommend that the guidelines applying to all privatizations be made more specific.

While the ministry is committed to refining the privatization guidelines and procedures, it should be noted that existing procedures and practices eliminate any material risk that employee proposals will be dealt with inconsistently.

There are, for example, clear written criteria for qualifying employee groups. These criteria require the employee group to demonstrate, among other things, that:

- *The group represents a majority of the regular employees directly affected by the privatization.*
- *All members of the group have contributed equity to the proposed enterprise.*
- *The employee group represents a majority of the equity in the proposed enterprise.*
- *The employee group has effective control of the business.*
- *The group has adequate financial and management resources.*
- *The group is able to address safety and standards issues.*
- *The intentions of the group are consistent with the government plan.*

If there is a valid employee group with a suitable proposal, the project team will commence discussions with that group. These discussions begin with an invitation to prepare a formal proposal based on the same information that would be provided through a public proposal call. Also, employee proposals are evaluated against the same standards as are applied to public proposals. Only where the employee proposal meets these established basic standards will the project team proceed to direct negotiations.

Project review procedures established by the Implementation Committee emphasize the need for a fair and consistent process. The responsibilities of line ministries, the privatization working group and implementation committee have been carefully defined to ensure a fair and consistent process for all proposals. Written procedures and checklists provide common standards for all projects. Project directors meet weekly, as a group, ensuring that each project team is aware of issues and developments in all current projects. Independent business valuation consultants are required to review each other's work to assist in establishing a common and consistent approach. Proposed agreements are reviewed by a single team of lawyers.

Public Requests for Proposals

Although the process recognizes that employees should not be given any more or less information than others would receive through a public proposal call, the audit team found that the RFP document received much more attention than did information provided to employee groups. In order to eliminate the risk that employees will not be given the same information that others would receive through a proposal call, the auditors recommend preparing RFP documents earlier in the process. Employees would then respond to the exact same information as might subsequently be released and any public offering.

The ministry agrees. RFP's will be prepared prior to any separate discussions or direct negotiations with employee groups.

The ministry does not agree with the auditors' recommendation that public proposal calls go out prior to government having first dealt with proposals from valid employee groups. Given government's stated policy favoring direct negotiations with employee groups, it would be neither fair nor realistic to expect other interested parties to expend time and money on alternative proposals.

Accountability

Continuing attention will be given to refining the procedures used to identify, implement and monitor privatizations.

The ministry will continue to take special care to ensure that the stated process is followed in all projects and the Legislature is provided with reliable and complete information on all privatizations in accordance with the normal accountability cycle established for government.

II. Early Initiatives

The report covers the audit team's review of three early privatizations: the Queen's Printer publications section in Victoria, the soil laboratory in Kelowna and the sign shop in Langford. In each case the businesses were sold to an employee group without going through a public bidding process.

Because government did not follow a public bidding process, the audit team concluded there was insufficient information for government to evaluate the value-for-money consequences of its decision.

As we noted in our response to the process audit, the ministry disagrees with this conclusion. In our view, the information available to government provided a reasonably complete basis for concluding agreements with the employee groups. Service standards were assured. The projects supported regional economic development. Government's policy objectives favoring employee ownership and providing continuity of work for government employes were met. Upset prices based on the estimated value of the physical assets and projected costs of continuing the business in government were known. With each project Cabinet was able to determine the cost benefits from the proposed sales. Clearly, Cabinet was provided sufficient information to evaluate the consequences of its decisions.

The evaluation process and sale decision included a broad range of cost benefit and public policy considerations. The discussion that follows outlines these considerations for each of the three projects.

Crown Publications Inc.

The sale of the Queen's Printer publications section was announced in January 1988. The decision to privatize considered the following factors.

- *The sale reflected fair value for the business, meeting government's objective to obtain a fair deal for taxpayers.*
- *Government received an estimated $65,000 to $165,000 above the independent valuation of the publications inventory, meeting government's objective to obtain a fair deal for taxpayers.*
- *The five-year agreement, which includes an option to renew for a further five years, provides direct savings of $50,000 per year, meeting government's objective to obtain a fair deal for taxpayers.*
- *Service standards have been specified and represent an integral part of the agreement, meeting government's objective to assure quality of service to the public.*
- *Volume discounts would continue to be available to educational institutions, bookstores and book agents, meeting government's objective to assure quality of service to the public.*
- *Prices for government publications sold to the public were strictly controlled, meeting government's objective to assure quality of service to the public.*
- *The agreement assured the continuation and offered potential for expansion of this Victoria-based business, meeting government's objective to support regional economic development.*
- *All employees were guaranteed continued employment, meeting government's objective to provide continuity of work for government employees.*
- *Six of ten employees opted to become shareholders in the new company, meeting government's objective to encourage employee ownership.*

Since the privatization, Crown Publications have expanded the list of available publications, improved mail order service, including automatic distribution to subscribers for frequently updated material, and hired four new employees. Also, plans are underway to open additional distribution centres.

Griffin Laboratories Ltd.

The sale of the Kelowna soil laboratory included two service contracts: one with the Ministry of Agriculture and Fisheries for analysis of soil, animal feed, plant tissue and water samples; and another with the Ministry of Environment and Parks for chemical and physical analysis of soils, surface materials and vegetation. The agreement was based on the following considerations.

- *The sale price of $140,000 was considered to represent fair value for the business, taking into account the company's likely future earning potential, thereby meeting government's objective to obtain a fair deal for taxpayers.*
- *The agreement will result in an average yearly saving to government of $130,000 over the five-year term of the contract, meeting government's objective to obtain a fair deal for taxpayers.*
- *Government commitments are limited to a declining number of fixed tests over the life of the contract.*
- *Government is able to tender any additional requirements above contracted levels.*
- *Six employees elected to move to the new company, three of which elected to became shareholders, meeting government's objective to encourage employee ownership.*
- *All employees were guaranteed continued employment, meeting government's objective to provide continuity of work for government employees.*

- *The sale agreement ensures that the laboratory will remain in the Okanagan region, meeting government's objective to support regional economic development. (Our examination of the market indicated that other proposals likely would have required a relocation and amalgamation with existing private laboratories in the Lower Mainland.)*

Since the privatization, the laboratory has expanded its business, creating new employment opportunities in the local community.

Tran Sign Ltd.

The evaluation and sale process for the former highways ministry sign shop was based on the following considerations.

- *Government obtained independent valuations of the land, building and other fixed assets. Book values for inventory were based on recent counts and invoice prices, and written down to net realizable value. Based on these appraisals, the sale agreement provided a reasonable return for the business, meeting government's objective to obtain a fair deal for taxpayers.*
- *The sale provided a direct cost saving to government in excess of $500,000 over the five year service contract. This amount includes $200,000 in operating savings and a further $375,000 to $450,000 in interest from the Privatization Benefits Fund, meeting government's objective to obtain a fair deal for taxpayers.*
- *The new arrangements provide an additional $468,000 in sales tax revenues, meeting government's objective to obtain a fair deal for taxpayers.*
- *Government receives a discount of 15% on the purchase of signs over the guaranteed amount over the first three years of the contract, and 10% over the last two years, meeting government's objective to obtain a fair deal for taxpayers.*
- *Price increases over the term of the contract are limited to those directly attributable to increased raw material and freight costs, meeting government's objective to obtain a fair deal for taxpayers.*
- *Continued product quality is guaranteed by the inclusion of standards in the contract for service, meeting government's objective to assure quality of service to the public.*
- *The five-year contract for sign purchases includes declining volumes. After the first year, government is free to tender any sign requirements in excess of the contracted amounts, meeting government's objective to obtain a fair deal for taxpayers.*
- *All employees were guaranteed continued employment, meeting government's objective to provide continuity of work for government employees.*
- *Fifteen of twenty employees opted to join the new company and become shareholders, meeting government's objective to encourage employee ownership.*
- *The agreement provided a solid base for future private sector business opportunities through expansion of the customer base and entry into new markets, meeting government's objective to support regional economic development.*

Since the privatization Tran Sign has expanded its business, hired five new employees and opened up a marketing office in Vancouver. Today, a substantial proportion of the company's business comes from non-government customers.

General Findings

Although the projects were carried out before government's privatization process was fully formalized, the audit report notes that the process for selecting and implementing each of these three early privatizations was substantially the same. It should also be noted that the criteria for qualifying the employee groups was essentially the same as that applied in subsequent privatizations.

The audit report notes that government followed a reasonable process in estimating the value of the physical assets sold and in writing down inventories to net realizable value. The auditors did express some reservations, however, about whether the government had sufficient information to adjust the appraisal of market value for continuing use.

The ministry believes that the approach taken to estimate the soil laboratory's business value, comparing the projected rate of return to the capital investment required, was reasonable and more appropriate than using the appraised value of the fixed assets. This approach considers the earnings potential, the business risks involved, and the benefits accruing to government through the proposed service contracts.

It should also be noted that the appraisal report included equipment that the purchasers did not want or consider necessary for the operation of the laboratory. The appraised value therefore required downward adjustment. Moreover, the appraised value for the fixed assets did not consider the economics of using the assets to generate income.

Further, government did not consider it likely that another buyer could be found to operate the business at its present location. This left only the option of closing the business and contracting required services from other laboratories. Noting that the value of the fixed assets, after deducting the costs of liquidation, would be $4,000, government considered the offer from the employee group to be a fair deal.

The ministry agrees with the audit finding that, while there was some imprecision in the estimates of future costs, the information obtained by the project teams did provide sufficient information to conclude that the negotiated contract prices in each of the three privatizations were lower than costs of continuing the services within government. Moreover, it should be noted that government adopted a conservative approach in estimating cost benefits resulting from the privatizations. While some costs were difficult to measure and therefore excluded from the projections, major cost benefits, such as tax revenues resulting from future business expansion, were also excluded. Experience to date has shown that actual benefits to government will exceed representations made at the time of the sales by a considerable margin.

Government did obtain a variety of information relating to prices that would likely be charged by other private sector suppliers, but did not ask for bids or otherwise test the open market. The decision not to ask for public bids was made in accord with expressed government policy favoring employee ownership and providing continuity of work for government employees. The ministry agrees that it may have been possible to obtain better prices through a public proposal call, but only at the expense of failing to meet these important policy objectives.

Moreover, as the initial agreements expire, contracts for future services will be tendered. Thus, in the longer term the value-for-money concerns expressed in the audit report will be met.

The audit notes that government was unable to make a full determination of the value of the business opportunities. The ministry confirms this finding. However, as was noted in our response to the process audit, government did obtain comprehensive business valuation advice from its consultants. This information, coupled with the appraisals of assets sold and the future cost implications of privatization, provided adequate and reasonable information about the value of the proposed agreements.

In determining whether or not the proposed agreements with employee groups provided a fair deal for the taxpayer, government applied three tests.

1. *Did the proposed contract provide ongoing cost savings to government?*
2. *Did the employee group offer provide a fair price for the fixed assets and inventory being sold with the business?*
3. *Would the proposal achieve government's other broad policy goals? In particular, did the proposal:*
   - *encourage employee ownership;*
   - *provide continuity of work for government employees;*
   - *ensure public safety and quality of service;*
   - *support regional development;*
   - *treat all parties fairly?*

Each of the three early privatizations met these tests and therefore government correctly concluded that the proposals provided a fair deal for the taxpayer as well as for the employees.

Accountability

The ministry believes the representations made by government about these projects were fair and sufficient for the public to conclude that the privatizations achieved a fair deal for the employees and the taxpayer. The public announcements showed that government had sufficient information to conclude that the negotiated contract prices were lower than its costs of providing these goods and services directly.

The ministry agrees with the audit team's finding that disclosure of additional information about the estimated value of the assets sold, the amounts of the leases and projected costs would have provided a more complete perspective on the negotiated agreements. However, we do not believe these omissions detract from the public's ability to conclude that the three privatizations were indeed a fair deal for both employees and taxpayers alike.

In accordance with the established accountability cycle, the ministry will ensure that the Legislative Assembly is provided with complete and reliable information about cost and other benefits achieved from the completed privatizations.

III. Highways

The audit report examines the privatization of road and bridge maintenance operations for southern Vancouver Island. The ministry concurs with the audit finding that the process followed did provide the information needed to evaluate the value-for-money consequences of this privatization. Further, that the representations made by government about this privatization were fair and sufficient for the Legislative Assembly and the public to judge the value and benefits of the contract.

The Ministry of Transportation and Highways has put in place detailed procedures to monitor this and other privatized highways maintenance contracts. These procedures will ensure that the public's interests, in terms of service standards and value-for-money, are protected. In accordance with the established accountability cycle, the ministry will also ensure that the Legislative Assembly is provided sufficient and reliable information about the results achieved by this and other highways privatization projects.

IV. British Columbia Enterprise Corporation Loans

The audit team concluded that the corporation obtained fair market value for the portion of the portfolio sold. No recommendations are made in the report.

Ministry of Health: Introduction

In 1988, we did four value-for-money audits in the Ministry of Health. These audits continued the cyclical coverage of all the ministries of government which has been part of our audit program since 1980.

The Ministry of Health spends one third of the provincial budget. The programs it supports directly affect every citizen of the province. The guarantee of universal access to health care, combined with science's ability to provide technological advances in health care and society's limited ability to pay for such improvements, challenges those involved in providing services to get the best value for the money spent. Our audits assessed whether the Ministry has suitable processes to ensure it is getting value for the funds spent on health, and also whether it properly accounts to the public for the results achieved by those expenditures.

We examined four programs of the Ministry: hospitals, the medical services plan (MSP), continuing care, and public health. The first three of these cover 85% of the Ministry's spending. However, the Ministry does not deliver most health care services directly. Rather it pays others, such as hospitals, doctors, and nursing homes, to provide these services. Although the funds spent on public health are small by comparison, the service is delivered directly by ministry employees. In addition, the size of the budget belies the importance of public health, since many of its programs prevent disease, and thereby reduce the demand on the curative parts of the system, which are more expensive.

The Ministry pays most of the cost of British Columbia's hospitals. In our hospitals audit, we looked at whether, in return, the Ministry receives cost-effective services. We concluded that it does not collect enough information to know how cost-effective the services it pays for are.

Our MSP audit also looked at whether services being purchased are cost-effective. The Plan pays for the services of doctors and other health practitioners on behalf of most British Columbia residents. In this audit we focused on how MSP makes sure that services it pays for are medically required, actually rendered, and properly billed. We concluded it has strong controls on proper billings, but it needs to do more work on its methods for making sure that services are medically required and have actually been performed.

In its 10 years as a ministry program, continuing care has made considerable progress in integrating services for the elderly and chronically ill. However, we think the Ministry should do more to see if stronger community-based services would reduce costs and delay entry of elderly people into nursing homes. The Victoria Health Project is testing concepts that address this issue. The Ministry's monitoring of nursing homes funded by the program also needs improving. The Ministry has recognized the problems and is correcting them.

Public health is struggling to meet demands in traditional areas of service. At the same time, there is a belief that more should be done. The Ministry has identified several new directions for its programs including better prevention of chronic and lifestyle disease, more concentration on high risk groups, and more involvement of the community in program delivery. We found the public health system is challenged to manage this significant change in its services and methods.

The audits of each of these four programs of the Ministry of Health—hospitals, MSP, continuing care, and public health—are described in the sections that follow.

Ministry of Health: Hospitals

Audit Purpose

The Legislative Assembly has given the Ministry of Health the main responsibility for making sure the hospital system is cost-effective. This audit assessed whether the Ministry has procedures to ensure that hospitals provide services at a reasonable cost. It did not question the role of hospitals, but rather, examined the value for money or cost-effectiveness of their services. It asked: Does the Ministry know whether the hospital system could do as well, or better, at a lower cost, than it is now doing?

We carried out our audit between May and August 1988. Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

In our opinion, the Ministry has procedures in place that restrain the total cost of the hospital system. However, its methods are not refined enough to tell it whether the system is as cost-effective as it should be. To know this, the Ministry needs better tools to gather and analyze information on the costs and effects of the hospital services for which it is paying.

The Hospital System

The British Columbia hospital system is made up of 135 hospitals. They range from referral centers like Vancouver General Hospital, with 1,200 beds, to diagnostic and treatment centers like Logan Lake, with day service only and no overnight beds. The smallest hospitals give emergency treatment only, and perform basic diagnostic tests. Regional hospitals provide a range of common hospital services to the surrounding towns. The most specialized services are available in teaching hospitals, like Vancouver General Hospital.

The Ministry of Health pays for most hospital operating costs, spending about $2 billion a year to do so. As well, it pays about 60% of the cost of new hospital buildings, and about half the cost of major equipment. Local residents, through property taxes and donations, pay the balance of capital costs.

Throughout the 1980s, the Provincial Government has spent about 16% of its budget on hospitals.

The Ministry of Health does not run hospitals directly. (It has the power to do so, but uses this power only in special circumstances.) It does have the legislative authority to inspect hospitals to ensure proper health care delivery and relative cost effectiveness.

Normally, each hospital is operated by an independent non-profit society. Society members elect a board to direct the hospital's operations. The Ministry appoints one or more directors to each board, with powers similar to those of the other directors. Local governments may also appoint directors.

The hospital board hires administrators to manage the hospital. It also decides which doctors can join the medical staff of the hospital. The medical staff controls the admission, treatment, and discharge of patients of the hospital. In consultation with its medical staff, the board also chooses which services the hospital will offer. This choice, however, must be formally approved by the Ministry.

The complexity, size, organization, and social importance of the hospital system all combine to make identifying cost-effectiveness a difficult task. British Columbia is not unique here—other provinces and countries are wrestling with the same problems.

Comparisons with Other Provinces

Comparing health costs between jurisdictions is difficult. Definitions and administrative structures are not standardized. A health-related service may be under the health ministry in one province and under a different ministry in its neighboring province. Also, since provinces differ in how they divide costs between hospitals and other parts of their health system, both hospital spending and total health spending should be examined.

Figure 2.4 compares the total health spending, and spending on hospitals, of each provincial government.

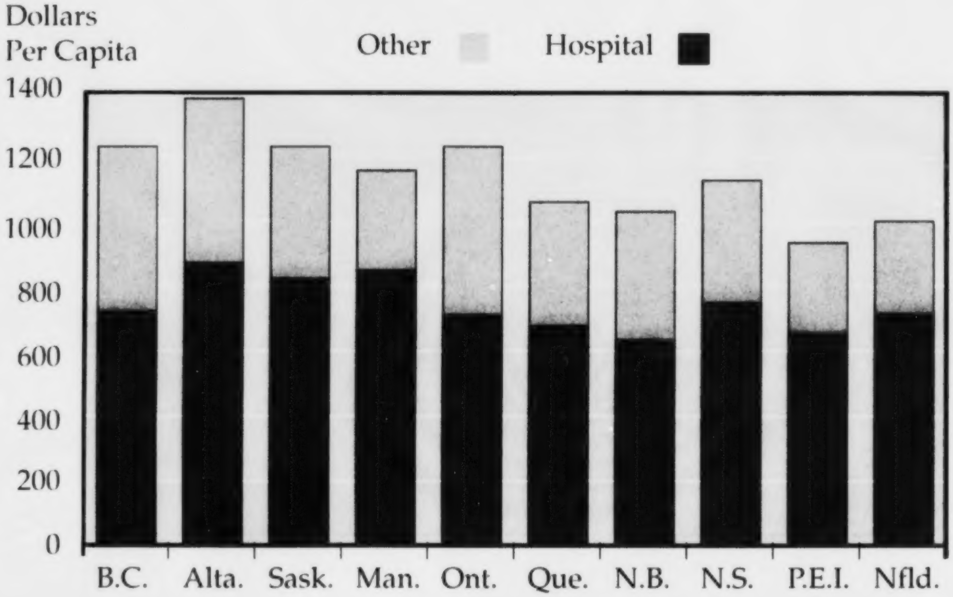


FIGURE 2.4.

Provincial health expenditures (1987-1988)

Source: Statistics Canada

What Does the Ministry Do to Promote Efficiency?

We found that the Ministry has acted to control the total amount it spends on hospitals. Also, it has organized the hospital system in a way which should, in general, encourage efficiency.

The Ministry's most significant action on costs has been capping hospital budgets. That is, it fixes a budget for each hospital and only increases it for costs outside the hospital's control. Capping began in 1981, as part of government restraint. Figure 2.5 shows the results of this action on hospital costs, after the effects of population growth and inflation have been removed.

When it introduced capping, the Ministry also gave hospitals more freedom in spending their operating budgets. Previously, the Ministry had approved specific components of hospital budgets. It decided how much a hospital could spend on each separate area of cost, such as nursing staff, heating fuel, or cleaning supplies. Now, a hospital can choose to spend more in one cost area and less in another, as long as it operates within its total budget. This flexibility, particularly when combined with capping of budgets, gives hospitals an incentive and an opportunity to spend their funds as efficiently as possible.

A hospital's expenditures fall into three parts. The largest part goes to the basic cost of running existing programs at current costs for labor and materials, and current levels of demand. Another part goes to cover rising prices, or increased demand for existing services. The third part of the expenditures goes to adding new programs to the hospital's range of services.

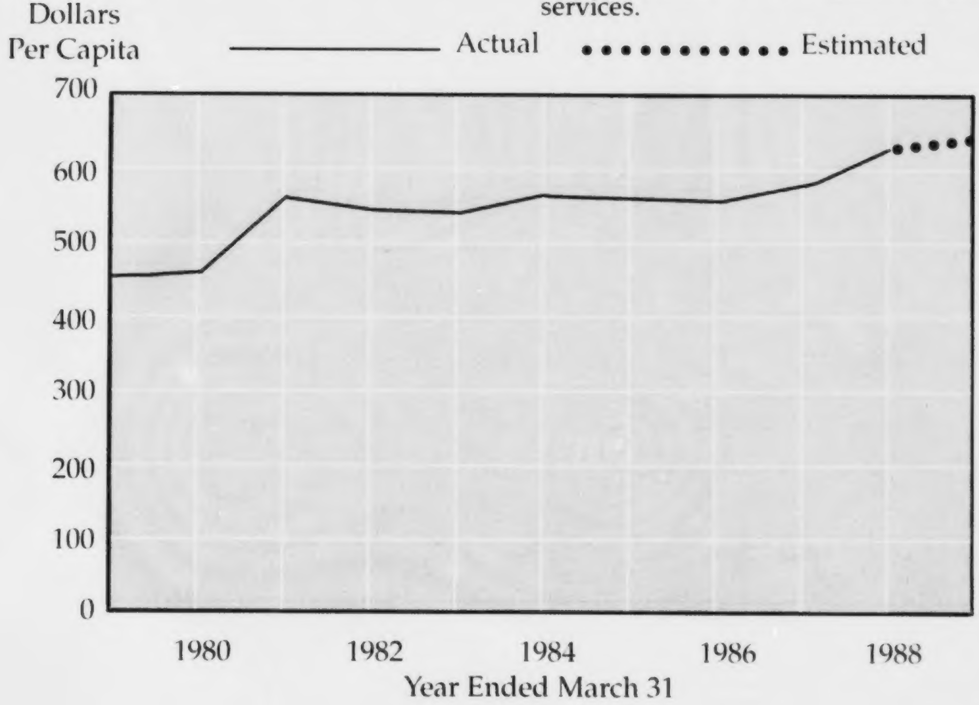


FIGURE 2.5.

Ministry spending on hospitals, per capita.

Translated into constant dollars using Vancouver consumer price index. 1989 = 100 1988 and 1989 indices are estimated

Note: Excludes Medical Services Plan Payments to Hospitals.

Source:
Public Accounts and Estimates, Province of British Columbia

Base Operating Costs

Each hospital is funded for its base costs. In some cases the Ministry has built up a hospital's base funding by analyzing its major component costs. Otherwise, a hospital's base funding is calculated from its previous year's funding.

Not all patients in a hospital cost the same to care for. The Ministry assesses hospital performance using the expertise of its specialist staff, and applying statistical measures. One important measure compares the cost per patient in similar-sized hospitals. It shows hospitals that appear to be below average in efficiency. The Ministry groups hospitals for comparison by their total "weighted patient days" and also compares their efficiency using their cost per "weighted patient day." This measure, which is calculated for each hospital, multiplies each patient day by a weighting designed to reflect that patients' relative use of resources.

We think these weightings need updating. Hospitals' technology and procedures are constantly changing, providing hospitals with more efficient ways of operating. To provide useful comparisons, the Ministry's weighted patient day indicators should reflect these changes. We believe the indicators currently used are not refined enough to be reliable tools for gauging hospital efficiency.

Besides looking at efficiency indicators such as cost per patient day, the Ministry also watches to see that hospitals are being carefully managed overall. One measure of this is how well the hospital stays within its budget. Ministry policy is clear: hospitals must not overspend their budgets. However, ministry actions to prevent overspending have not been as clear. From our interviews with both ministry staff and hospital management we concluded that hospitals view the deficit controls as being applied inconsistently. This perception is not encouraging to those hospitals that manage to stay within their budgets. We believe it is important that the Ministry make its deficit policy clear to all hospitals, as well as the reasons behind any apparent exceptions.

Cost of Price or Workload Increases

As well as base funding, each hospital receives additional funds for cost increases outside its control, such as for province-wide wage settlements or inflation in supply costs. Also, the Ministry regularly reviews the demand for services in each hospital, and increases base funding for hospitals whose workloads have grown. Our comments about the quality of information used to judge base operating costs also apply to costing of workload increases.

Operating Cost of Added Services

The Ministry has several procedures to control cost increases resulting from hospitals adding new programs.

First, all programs must be formally approved by the Ministry. The value of this control, however, is diminished by weakness in the Ministry's monitoring of it. At one time, the Ministry kept inventories of the programs offered by each hospital. These inventories have not been updated since 1981. This leaves the Ministry without an overview of the programs it is funding. When analyzing an application for a new program, ministry staff need to know about any similar programs in other hospitals which could better meet the projected need. (The Ministry has begun a review of the province's largest hospitals, which will produce an up-to-date inventory of their programs.)

Second, most significant new programs require extra operating funds. The Ministry examines the value and cost of any proposed program before supplying the extra funding needed to operate it. Although the Ministry's cost information is not refined enough to fully identify the costs involved, this review process does provide another useful means of identifying new programs.

Buildings and Major Equipment

A final control over new programs rests in the fact that new programs often require major new equipment or new buildings. The Ministry has funding and control systems for capital spending on new buildings and equipment, separate from that for routine hospital costs.

Any new program request that involves adding more beds to a hospital is reviewed against regional and provincial needs. The Ministry has set goals for the number of hospital beds in the province, and in each region. The goals, for acute care beds and for extended care beds, are expressed as ratios of beds per thousand population. The ratios are adjusted for differences in the age and health needs of the population in particular regions. We concluded that setting bed ratio goals is a useful method of moving the hospital system towards more efficient resource use.

Ministry involvement in capital additions has other benefits. Because the Ministry reviews and approves the design of all new hospital construction, the hospital system benefits from accumulated learning about which designs work and which do not. As well, the Ministry can contribute expertise in construction management.

Despite these benefits, having separate funding systems for routine operating costs and for capital costs can keep hospitals from making cost-saving tradeoffs. For example, a hospital may be able to reduce its operating costs by automating its accounting and record-keeping. To do so, it needs capital funds to buy computers. The Ministry, however, has limited the amount of its hospital programs budget that can be spent on capital equipment. The budgeted amount for capital equipment is usually only large enough to pay for essential diagnostic and life-saving equipment, so requests for cost-saving capital equipment are often turned down.

Does the Ministry Know Whether the Hospital System Is Cost-Effective?

We concluded that the Ministry cannot determine how cost-effective the hospital system is, because it lacks information about the costs and health effects of the services offered by the system.

In its annual report, the Ministry of Health states that its role in the hospital system is "essentially that of a funding agency, with practical responsibility for facility operations remaining with the institutions . . . [although] ultimate responsibility remains with the Minister . . . . [The Ministry's] mandate is to ensure that the Provincial Government receives value for the funds expended and that the hospitals' output justifies the funding allocated to them." In other words, the Ministry is a purchaser of hospital services rather than a direct provider of them. As steward of the public's money, the Ministry must ensure value for money spent, regardless of the method of delivering service.

Judging the cost-effectiveness of a system as complex as the hospital system requires detailed knowledge about the cost of the services it offers, and the health results they achieve. Of these two elements of cost-effectiveness, cost is the easier to measure. Cost accounting methods are well established in many industries. Measuring effectiveness—the health benefit from hospital services—is operationally less well established.

In the discussion below, we have separated the two elements, and discuss cost measurement first. However, this in no way denies the importance of being able to judge both cost and effectiveness together, for any hospital service.

Cost of Services

The Ministry knows little about how much each service costs. Although it gets standard accounting reports from each hospital every month, this information is inadequate for proper cost control. The costs given are not divided by service, and are not reported in enough detail. For example, staffing costs make up more than two thirds of hospital operating costs. Despite the very different staffing needs of different hospital services, all staffing costs for a hospital are grouped into one amount in the information the Ministry collects. As a result, the Ministry does not know how much a particular service, such as delivering a baby, costs.

Without knowledge of the actual cost of services, determining how much an efficiently delivered service should cost is difficult. The Ministry needs such cost yardsticks to determine objectively whether a hospital is efficient.

Because the Ministry lacks good cost information, it must use indirect means to decide what added funding is needed when a hospital adds a new service. To project labor costs, the Ministry estimates the number of staff needed for the new service, using ministry staffing guidelines. These guidelines, however, are out of date. For example, they do not include the electronics technicians needed to maintain the complex equipment essential in a modern hospital. To compensate for the defects in the staffing guidelines, ministry staff are forced to make ad hoc adjustments.

One reason for the Ministry's lack of reliable cost information is that it tries to collect the same information from all hospitals, although large referral hospitals are much more complex than small community hospitals. We think the Ministry needs more information, in more detail, to monitor the costs of large hospitals.

The Canadian hospital industry has recently developed a new cost accounting standard which gives detailed and consistent cost breakdowns for all sizes of hospitals. The Ministry has supported its development, but has not made it mandatory. We believe that this standard, or a similar one, could be the basis of an effective cost reporting system for our province's hospital system.

We concluded that although the Ministry is making full use of the cost information and expertise it currently has, it does not have enough information. It will need to invest in improved information collection systems before it can determine the cost-effectiveness of the hospital system.

Effects of Services

The Ministry collects information on how many services of various kinds are actually *delivered* by British Columbia hospitals. For only a few services has it worked out standards for how many services are *needed*. For some relatively uncommon but high cost services such as open heart surgery, it has set goals for the number of procedures it will pay for. These goals are based on analysis, consultation with medical experts, and experience in other provinces and countries. For more common services, however, the Ministry does not have such specific targets. Thus, for most services, the Ministry leaves the hospitals to choose the best service mix within the limited funds available.

In our opinion, the Ministry's procedures for setting goals for particular services are reasonable. Such procedures, however, are used very infrequently. We believe the Ministry should set similar goals for all hospital services that contribute materially to the cost of the hospital system.

To manage themselves better, hospitals across Canada have developed a system for analyzing medical information on the patients they treat. This system can be useful for analyzing the effectiveness of different hospitals and different hospital inpatient and day care services, although it is less useful for analyzing ambulatory and extended care services. The Ministry has access to this system, but does not regularly use it to examine the effectiveness of hospital performance. We believe that a greater ministry investment in making use of this data base would pay off in a better-managed hospital system.

Public Accountability

The hospital section of the Ministry's annual report does not meet reasonable standards for public accountability reporting.

Accountability concerns what the Ministry tells the Legislative Assembly and public about the hospital system, its role, and its performance in this role. In our opinion, the Ministry's annual report—its main way to provide this information—is not adequate. For example, it does not even list the hospitals the Ministry funds, and how much it gives each of them. We believe the Ministry should report both the cost and the effect of the services it funds, so the Legislative Assembly and the public can gauge whether they are receiving value for money.

We recognize that the Ministry must deal with a complex system that has a high public profile. This justifies some caution. However, we believe that full disclosure of cost and effectiveness information must occur. We also believe that making such disclosure would help the Ministry gain public support for making the hospital system as cost-effective as it can be.

Of course, the Ministry cannot tell more than it knows. The improved information required to manage the hospital system is also needed so that it can be better accountable.

Coordination

We concluded that the Ministry's procedures do not focus strongly enough on promoting cost-saving through better coordination of the hospital system.

The health care system is so large that it is divided into parts such as hospitals, mental health services, ambulances, and nursing homes. This administrative separation means that cost-saving cooperation needs careful planning. Funding methods often emphasize the separation. For example, a patient may be able to leave an expensive hospital bed if (less expensive) home nursing care is available. However, hospitals and home nursing are separately managed programs with separate funding. A hospital has no way to use the saving from emptying the bed to pay for the cost of home nursing. Funding methods may even work against cost saving. A patient in an expensive acute care bed has all his costs covered. If he moves to a less expensive continuing care bed, he must pay for part of the costs himself.

Restrained total funding, combined with flexibility in their own budgets, gives hospitals a general incentive to innovate. In specific cases, the Ministry has encouraged hospitals to find ways of saving money by integrating their services. For example, in New Westminster, two hospitals agreed to specialize each in one service on behalf of both. Other hospitals have cut duplication by sharing laundry or pharmacy services. In several parts of the province, local health and hospital boards are developing better coordinated systems for health care. The Ministry has praised this improved coordination, and is making sure there are no legal obstacles to it. However, the Ministry has no formal programs to require hospitals to think regionally and to integrate their services with their neighbors'.

Looking Ahead

Although the Ministry has acted to control the total cost of the hospital system, and organized the system in a way that encourages cost-effectiveness, we believe more should be done.

The Legislative Assembly should expect the Ministry to manage the province's hospitals as a coordinated system. The Assembly should also expect better information about the hospital system and the Ministry's stewardship of it. To achieve these goals, the Ministry will need to invest in better information systems, and the staff to analyze and act on the information.

Ministry of Health: Medical Services Plan

Audit Purpose

The Ministry of Health's Medical Services Plan (MSP; "the Plan") pays for the services of doctors and other health practitioners for the 98% of British Columbians who subscribe to it. The Plan also has other important functions, such as registering subscribers and collecting premiums. We did not examine these functions. Our audit looked at whether MSP is able to ensure that it pays only for services that are medically required and valid—that is, services which are actually rendered and properly billed.

We carried out our audit over the period October 1988 to January 1989. Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

In our opinion, MSP cannot be sure that it is paying only for medically required and valid services. It has good tools for ensuring that services are properly billed. However, its system for confirming that services have been rendered needs improvement. Furthermore, it can detect overservicing compared to the norm, but cannot ensure that services within the norm are medically required. Finally, when it discovers misuse of medicare, whether by subscribers or practitioners, its response has been limited.

Defining Prudent Use

Provincial medicare systems like MSP are unusual in that there is no outside limit on potential demand for the services they pay for. Subscribers go to a practitioner when they feel they need to; they do not have to pass a test or other screening first. Similarly, practitioners have no limits (except their own professional judgment) in treating patients, referring them to specialists, or ordering diagnostic tests. Clearly, such an open-ended system can only be cost-effective if both subscribers and practitioners exercise prudence in using it.

Unnecessary use by subscribers can take several forms. One extreme form is fraud, such as when drug addicts go from doctor to doctor to get controlled drugs. Greater costs may result from more innocent misuses, as when subscribers visit practitioners for very minor ailments, or demand unnecessary tests.

Practitioners can help medicare be cost-effective by educating their patients to use it prudently. They can also be prudent in their own practices, in referrals, and in their use of diagnostic services.

Improper use by practitioners ranges from overservicing to fraud. By overservicing, we mean supplying services which are not medically required, or not a cost-effective way to meet a medical need. Overservicing may be the biggest problem, because it is hard to define and because practitioners and subscribers may not always agree that it is a misuse of medicare.

Overservicing increases the cost of medicare, but may seem harmless to those directly involved. If a practitioner encourages or allows a patient to make an unnecessary office visit, the only cost to the patient is time. The patient may believe the extra visit shows the practitioner is more careful or caring than others.

How a medicare plan defines overservicing may conflict with how practitioners define it. Some practitioners believe their duty is to do everything they can to help their patients, and not to worry about the cost-effectiveness of the system. Others feel that a litigious society forces them to overservice by practising "defensive medicine." Just defining a standard against which to judge overservicing can lead to conflict. Should the standard be the norm—that is, what most practitioners do? Or should it be higher—the best in current practice?

The Plan is not alone in facing these problems. In our review, we did not find any other provincial medicare plans with solutions significantly different from those developed by MSP.

Encouraging Prudent Use: MSP Is Not Alone

As a major spender of public funds, MSP has a duty to ensure that it pays only for medically required and valid services. In this it has help from other organizations.

The British Columbia College of Physicians and Surgeons ("the College") is the licensing body for doctors. The Legislative Assembly has given it the power to say who can practice as a doctor, and to discipline those who fail to meet its standards. The College makes sure that applicants meet its standards for education and experience before giving them licenses to practice medicine in British Columbia. Only doctors licensed to practice by the College are allowed to bill MSP for services. As well, MSP depends on the College to investigate and act when a doctor's competence or professionalism is suspect. One reason for this is that the College alone has the legal right to review a doctor's medical records. (Other health practitioners are similarly governed by licensing bodies that function like the College.)

The British Columbia Medical Association ("the Medical Association"), a voluntary body to which most doctors belong, takes responsibility for responding to overservicing. To do this, it has a standing committee which examines unusual patterns of practice. The committee includes representatives of MSP, the College, and the public, and uses data provided by MSP.

Controlling the Cost

The Plan pays out about $1 billion a year for the services of doctors, other health practitioners, and laboratories. Figure 2.6, which is adjusted for inflation, shows that, in real terms, MSP's costs have not risen rapidly in recent years.

One reason is that MSP has an agreement with the province's doctors, which largely stabilizes the total amount it will pay for their services. This three-year agreement expires March 31, 1989. In the first year of the agreement, doctors' billings exceeded the negotiated total. To recover the excess, MSP reduced payments to doctors on later billings. In the second year of the contract, and to date in the third year, total billings have stayed within the agreed limit. We concluded that the agreement has been useful in setting a ceiling on MSP expenditures.

However, the agreement was not designed to help ensure that individual billings to MSP are reasonable. To do this, the Plan has set up specific controls to make sure subscribers and practitioners use the system prudently. The Plan needs to do three things to achieve this goal. First, it must communicate what prudent use means. Then it must keep watch for imprudent use. Finally, it must remedy misuse as it is discovered. Our audit examined how well MSP has been able to do these, for both subscribers and practitioners.

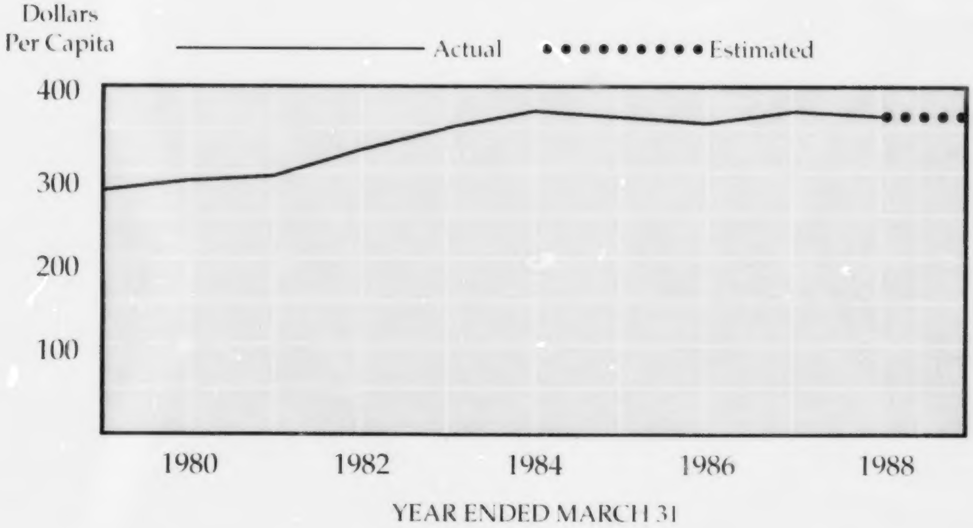


FIGURE 2.6.

MSP expenditures, per capita.

Translated into constant dollars using Vancouver consumer price index. 1989=100 1988 and 1989 indicies are estimated.

Source: Public Accounts and Estimates, Province of British Columbia

Responsible Use of Medicare: Subscribers

The Plan does surprisingly little to teach subscribers prudent use of medicare. Informally, practitioners probably do much in this regard through the cues they give to patients who are visiting them unnecessarily. However, practitioners alone cannot be expected to carry out this function, as by doing so they may be hurting themselves financially.

Although there is no formal program to make sure subscribers use medicare responsibly, some smaller steps are being taken. For example, the College will soon be tracking how often prescriptions for controlled drugs are written for the same patient. This will deter addicts who make visits to many different doctors to get drugs. As well, MSP can detect those few subscribers who visit practitioners or change practitioners extremely often, with no clear medical need. The Plan asks them to choose one general practitioner as their primary doctor. It then informs other doctors they can only bill for that patient if the primary doctor has referred the patient to them.

Despite these initiatives, we concluded that MSP should do more to teach subscribers how to use medicare prudently, to detect misuse by subscribers, and to correct such misuse. It should do more analysis of subscribers' actual patterns of use, so that it is able to:

- detect subscribers misusing the Plan;
- see which patterns of misuse are significant enough to need remedying; and
- tell individuals how their peers use medicare, and show them they are out of step with their friends and neighbors, not just with a bureaucratic rule.

Responsible Use of Medicare: Practitioners

The Plan defines its purpose as paying for medically required services. To be medically required, a service must be medically effective, pertinent to the diagnosis and the patient, and competently performed. The Plan itself does little to ensure that the services it pays for meet these tests.

The Plan has left the College and the other licensing bodies to define and police competence. Its own involvement has been limited to passing on to the licensing bodies any signs of incompetence turned up by its control systems.

Overall, MSP has few formal processes for making sure that all services it pays for are medically effective. One useful way for gauging effectiveness is to have a group of acknowledged experts draw up guidelines as to the circumstances under which an investigation or treatment may be effective. Such a consensus acts as a guide for practitioners. It also allows prediction of how often the investigation or treatment should be used, based on how often the illness it relates to occurs. These predictions can then assist funding agencies in deciding how much they should be paying for effective services.

The Ministry is already making use of guidelines in some areas. For example, in working out the need for sophisticated heart surgery, it has used the help of a group of cardiac specialists, assembled with the aid of the Medical Association. Other jurisdictions have also used groups of experts to develop guidelines. We believe that MSP could make more use of this technique to assist it in moving toward the goal of ensuring that it pays only for effective services.

The Services Paid For by MSP

The Plan pays for five kinds of practitioner services: doctor visits, surgery and other procedures, diagnostic, salaried and sessional, and other practitioners. Each of these presents slightly different problems for ensuring that services are medically required and valid. Figure 2.7 shows their relative cost.

Doctor Visits

Consultations with general practitioners and specialists make up almost half of MSP's payments. They are also the service most familiar to the average citizen. Visits to general practitioners are also important as the "entry gate" to referred specialist and diagnostic services.

The Plan employs three major systems to encourage practitioners to use medicare properly, and to ensure they are doing so. It applies all three systems—edit and adjudication, confirmations, and patterns of practice—to doctor visits.

Edit and Adjudication

This system is effective in preventing many billing problems, and it has potential as an early warning system for problems.

The system checks each bill from a practitioner to make sure that all details are correct. This controls misuse of the system in two ways. First, it prevents simple abuses, such as charging too much for a service, by rejecting the billing. Second, it gathers information on changing patterns of use of the system. It can run surveys to see how often a particular billing pattern occurs. Also, the trained staff who perform edit and adjudication functions may notice unusual patterns, because of their experience and intimate knowledge of the system.

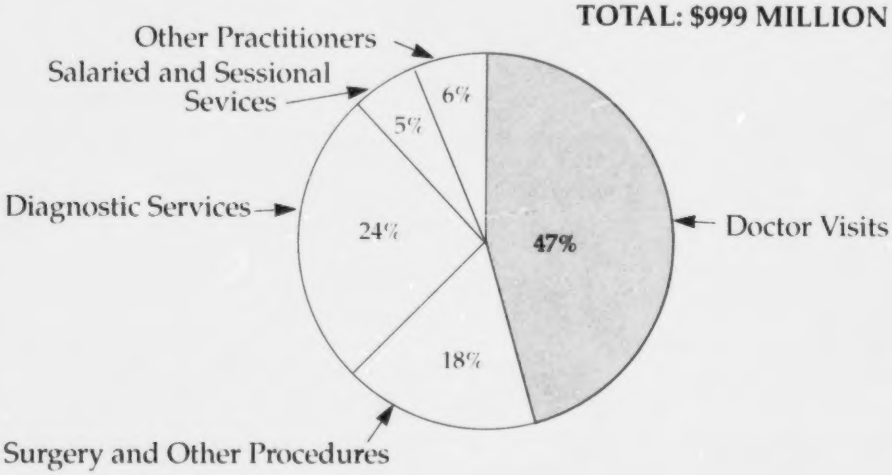


FIGURE 2.7

MSP payments for practitioners' services, 1987/88

Source: 1987/88 Summary of Information, Medical Services Plan.

Edit and adjudication's value as an early warning of problems may be vulnerable to resource shortages, however. The prime purpose of the system is to pay 40 million bills to 7,000 practitioners each year, quickly and efficiently. Most available resources are focused on getting bills paid promptly. Little time is left for following up unusual patterns, or making improvements to the system. Also, MSP's desire to pay practitioners promptly means that control procedures should not unduly delay payment.

Edit and adjudication is backed up by controls after payment. Confirmations, the second major control system, is one of these.

Confirmations

This system is at present not able to fully carry out one of its jobs, that of detecting false and exaggerated bills. However, the Ministry is actively working to correct several flaws in the system.

Confirmations are letters that the Ministry sends to Plan subscribers, asking them to confirm the details of services paid for on their behalf. The Ministry has two confirmation programs: regular and select. Through the regular program, several thousand letters are sent each month to subscribers chosen at random. Each letter lists the description, date, cost, and practitioner for services recently paid for on the subscriber's behalf. The subscriber is asked to write or telephone the Ministry if the information is not correct.

If the subscriber disputes the service, the Ministry takes further steps. A common one is to perform a select audit. This entails sending confirmation letters to patients who received a similar service from the practitioner whose service is in dispute. If any of these subscribers deny receiving the service, the audit staff recommends to MSP senior management that the practitioner be investigated further.

Confirmations are important because they can detect serious abuses, such as billing for services that were not performed, which are difficult to find by any other means. They can also detect inflated bills, such as those describing a short office visit as a (higher-priced) complete physical examination.

Despite its importance, MSP's confirmation process suffers from flaws which weaken its effectiveness. One third of subscribers never receive confirmations, because the Plan does not know their current addresses. It is working to correct this problem through a new program called Carecard, which should bring its address files up to date.

Another weakness in the confirmation process is the letters themselves. To get subscribers to understand and reply, confirmation letters need to be carefully written. They must be friendly, clear, and well organized. Although the Ministry's confirmation letters do not yet fully meet these standards, its staff are working to improve them.

Hundreds of confirmation letters may be sent out for every one that comes back indicating a problem. The process is only effective if every problem is fully investigated and the findings recorded. In reviewing the regular confirmation program, we found several instances where it was unclear whether investigations of problems had been completed. Also, findings were not recorded in such a way that staff were consistently made aware of problems requiring further attention. We concluded that the Ministry could make its confirmation system more effective by improving its processes for following up on problem confirmation and recording the results of follow-up.

Patterns of Practice

This system is successful at doing what it is designed to do: finding doctors whose practices are significantly different from the statistical norm. It is not designed to determine whether services rendered are actually medically required.

The system searches for patterns of overservicing. The Plan assembles computer profiles summarizing all the services a doctor was paid for during the year. The Medical Association's patterns of practice committee reviews the profiles that differ significantly from those of comparable doctors. A doctor may be selected for review because of high costs per patient, large numbers of services per patient, or frequent billings for certain services.

One limitation of the profile method lies in the definitions it uses. It compares each doctor to the average of all doctors with a similar kind of practice. It does not determine if the average pattern is the best one. If customs of practice change, the standard profile moves, whether or not there is evidence that the change results in improved health outcomes.

Another limitation is that only doctors who are very different from their peers are scrutinized. The committee will review a doctor whose cost per patient is higher than all but 1% of his peers, but not one whose cost is higher than all but, say, 7%.

By only looking at extremes, the committee ensures that doctors will see the process as fair, and not a "witch hunt." However, it leaves many potentially undesirable patterns of practice without scrutiny.

Improvements are being made in the patterns of practice system. The committee is testing profiles taken more frequently than once a year. It recognizes that annual profiles cannot detect high levels of overservicing during part of the year, if they are masked by normal servicing during the rest of the year. Another improvement being made will help the committee to detect unusual changes in practice by comparing practitioners against their previous years' patterns.

We believe that MSP can make the patterns of practice committee more effective by ensuring that doctors know what the committee is designed to prevent, and what actions it has recommended against offending doctors. One way to do this would be to make use of existing ministry publications. Another is to offer a course to practitioners when they receive a billing number. The course could explain how to use the fee schedule responsibly, what the desirable patterns of practice are, and how MSP watches over the use of the system. (We understand that the Ministry had developed such a course at one time, but that it is no longer in use.)

Corrective Tools

We concluded that the Plan has had some success in reeducating doctors whose practices are very different from those of their peers, but its response to misusers of medicare has been limited.

The three control systems discussed above all turn up signs of misuse, as do other sources, such as tips. When verified, these problems need to be acted on. The Plan has several ways in which to take action. The first is education. The patterns of practice committee sees its main role as teaching doctors to use the system responsibly. Usually, after the committee tells a doctor he is not practicing like his peers, his profile changes and becomes consistent with the norm.

The committee has had good success in educating doctors on patterns of use. One recent example is "counselling." During an office visit, a doctor may have to take a longer than usual time to discuss a difficult medical condition (especially a mental or emotional one). In this situation, he can charge for a counselling session at a higher rate than a regular office visit. The Plan's Payment Schedule, as well as the Medical Association's Guide to Fees, both make it clear that counselling should only be claimed in limited circumstances. A few years ago MSP found that billings for counselling were increasing rapidly. The patterns of practice committee paid extra attention to counselling, and determined that this type of billing was sometimes being used inappropriately. The Medical Association was concerned, and told its members to show more care. Figure 2.8 shows the results.

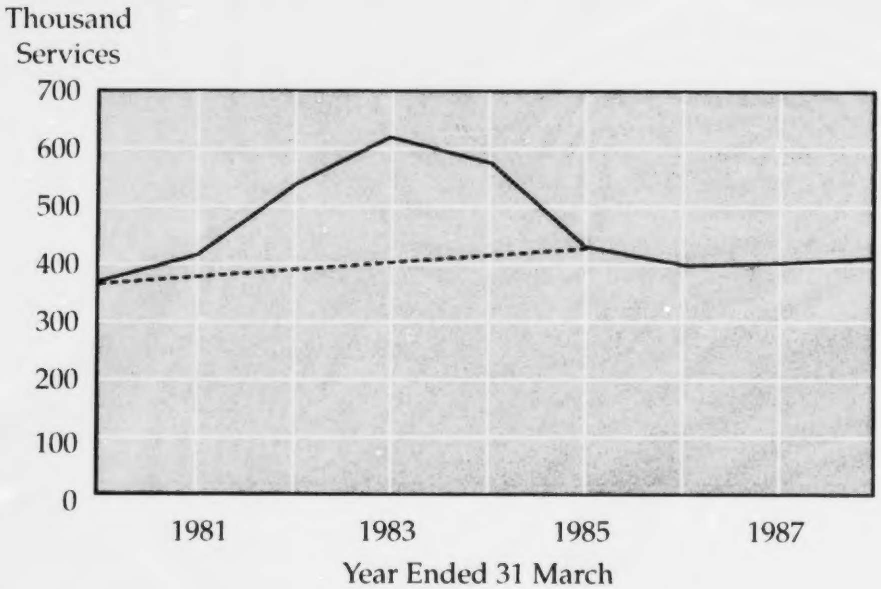


FIGURE 2.8.

Counselling

Source: Senior Medical Consultant, MSP

The drop in the curve represents a considerable cost saving. In the 1983 fiscal year, MSP paid for 630,000 counselling sessions a year, although the straight line projection (dashed line) would only have resulted in 380,000. At current fee rates the difference represents $3 million a year.

If education is not effective, the committee then recommends that MSP recover excess billings. Recovery of funds, however, has several weaknesses. The Plan takes back only the excess billed subsequent to when the committee told the doctor his pattern of practice was significantly different from the norm. Furthermore, the amount recovered is only the difference between the amount billed and the maximum acceptable limit. A hypothetical example makes this clear:

> The patterns of practice committee has recommended recovery of fees from Dr. X. Doctors with the same type of practice as Dr. X bill on average $50,000 a year for a certain group of services. A doctor who is just within the acceptable limit, billing more than all but 1 or 2% of the others, is billing $80,000 a year. Dr. X is billing $90,000 a year. If a recovery is sought, it will only be for $10,000 ($90,000-$80,000), not $40,000 ($90,000-$50,000).

In addition, the amount recovered is usually without interest added. In effect, the punishment for overservicing is having to repay an interest-free loan.

The committee only makes recommendations to MSP. It sees its job as determining the amount to be recovered and leaves MSP to act on the recommendation. Table 2.1 summarizes MSP actions against practitioners found to be abusing medicare.

Weaknesses in their legislation have impeded MSP in taking action against misuse. Recently, however, these deficiencies were corrected. There is now a new mechanism, called an audit committee, which can act against misusers. As at January 1989, its members have been selected and the regulations governing its operation drawn up, but it has not heard any cases.

The lengthy process involved in responding to misuse has two unfortunate effects. One is that misusers can continue their misuse, thus adding to the cost of medicare. The second is that others might be tempted to similarly misuse the system, if the risk of penalties appears slight.

TABLE 2.1.

MSP corrective action, all practitioners

Source: Senior Medical Consultant, MSP

	Average 1978/79 to 1982/83	1983/84	1984/85	1985/86	1986/87	April 1987 to Feb. 1988
	Number of Practitioners					
Action Taken:						
Recommendation Withdrawn	-	1	-	-	1	-
Action Pending	-	-	2	-	2	8
Legal Action Taken	-	2	-	-	-	-
Opted Out *(billing privileges removed)*	-	-	-	1	-	2
Formula Payment *(practitioner paid low rate)*	-	1	-	-	1	1
Recovery of Overpayment	2.6	6	5	2	2	1
Total Number of Practioners for whom Corrective Action Recommended	2.6	10	7	3	6	12
For Comparison: Number of Practitioners Billing MSP	4,945	6,616	6,832	7,155	7,426	7,692

Surgery and Other Procedures

Surgery and other procedures, such as dental surgery in hospitals and obstetrics, make up a second important sector of MSP expense (Figure 2.9).

Bills for procedures undergo the same controls as those for doctor visits. The strengths and weaknesses of the systems discussed above also apply to these procedures.

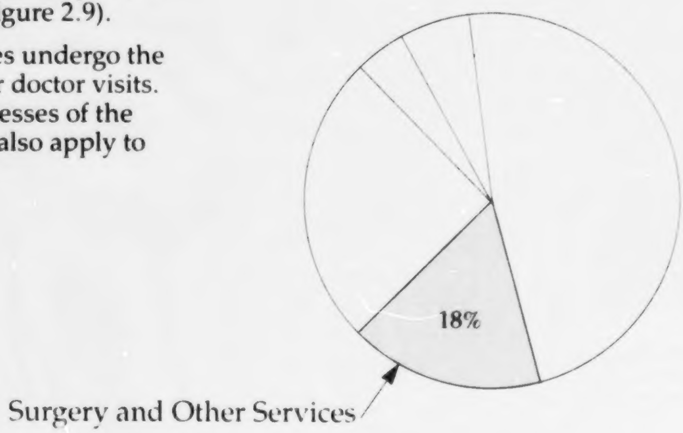


FIGURE 2.9

MSP payments for practitioners' services, 1987/88.

Diagnostic Services

Laboratory tests, X-rays, and similar services together receive almost one quarter of MSP dollars (Figure 2.10).

These diagnostic services differ in several ways from other services paid for by MSP. For the other services, MSP makes payments to individual practitioners for personally performed services. Here, payments are made mainly in the name of doctors who supervise hospital- and privately-owned laboratories, for services partly performed by non-medical staff.

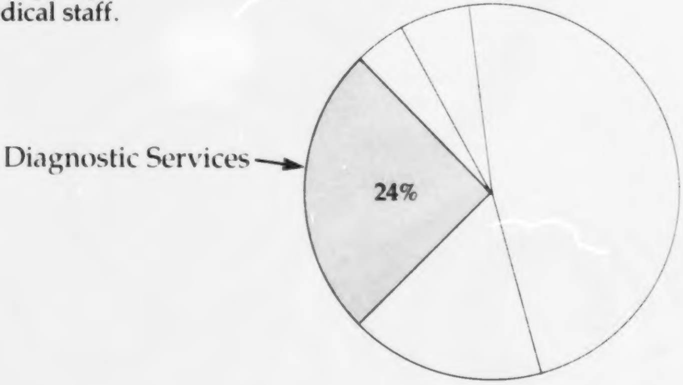


FIGURE 2.10

MSP payments for practitioners' services, 1987/88.

Of the major system controls discussed above, only edit and adjudication applies fully to diagnostic services. Many such services do not lend themselves easily to confirmation. For example, a patient can confirm that his doctor took a blood sample, but is less likely to know what tests were performed on the sample, and who performed them. As a result, the Ministry omits laboratory services, a significant area of cost, from its confirmation letters. We recommend that MSP develop a way of including laboratory procedures on confirmations, in a form which the subscriber can understand and reply to.

As well, the present profile system cannot adequately describe and scrutinize the patterns of practice of a mix of public hospitals, private businesses, and individual practitioners. However, the patterns of practice committee, with help from laboratory specialists, has drawn up acceptable patterns of use for a dozen of the several hundred diagnostic fee codes. These guidelines have been circulated to all doctors, and are beginning to be used in reviewing billing patterns.

Although this new initiative allows MSP to review some diagnostic services, more is needed if the Plan is to control this sector at least as closely as it does services in other sectors.

Salaried and Sessional Services

This sector (Figure 2.11), making up 5% of MSP's payments, uses a different method of paying doctors.

The other sectors of MSP expense are fee-for-service: a practitioner performs a service, then receives a standard fee. Some medical activities, however, do not lend themselves to fee-for-service. In these circumstances, an institution contracts with a doctor to work on salary, or to be available for specific blocks of time ("sessions").

The institution in turn negotiates a contract under which MSP pays the cost of the doctor's services. This is not necessarily for a different kind of service, or for a different kind of doctor. A doctor can have a part-time fee-for-service practice, and also do similar work on a sessional basis.

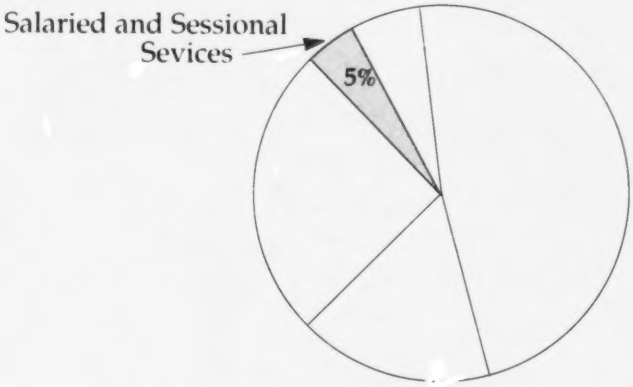


FIGURE 2.11.

MSP payments for practitioners' services, 1987/88.

Institutions pay their doctors according to the agreed contracts and bill MSP, which repays them. Until it receives a bill, MSP may not know the name of the doctor supplying the service, and it never knows the names of the patients receiving service. As a result, the controls it puts on fee-for-service cannot be applied here.

The Plan's staff scrutinize billings to see that the hours worked, and the names of the doctors delivering the service, do conform to the terms of each contract. Furthermore, the Ministry is beginning an internal review aimed at finding ways to improve its salaried and sessional control system.

However, MSP needs to do more to have at least the same level of assurance with salaried and sessional payments as with fee-for-service. In particular, it needs a way of matching payments made under salaried or sessional arrangements to fee-for-service payments for the same doctor. The Plan has found at least one instance of a doctor charging it twice for the same services. Without a linking system, it cannot be sure how rare these occurrences are.

Other Practitioners

The Plan pays for the services of some health practitioners other than doctors, such as chiropractors and physiotherapists (Figure 2.12).

It processes these services through the edit and adjudication system, and includes them on confirmations. It also sends each professional organization information on the billing patterns of its members, in the same way it sends information on doctors to the Medical Association. However, since these organizations are small compared to the Medical Association, and their fee schedules are less complex than the doctors', their review processes are less formal.

Payments in this area share the strengths and weaknesses that exist in the edit and adjudication system and the confirmation system, discussed under doctor visits. Our audit did not discover any other control problems unique to these practitioners.

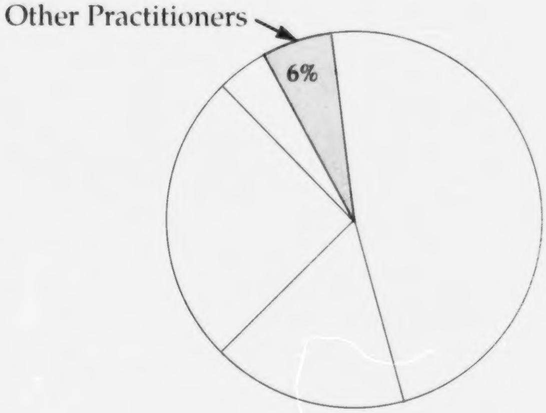


FIGURE 2.12.

MSP payments for practitioners' services, 1987/88.

Measuring the Effectiveness of the System

The staff of MSP are proud of the lean and efficient operation of the Plan. They believe their administrative costs, as a percentage of money paid out, are the lowest of any comparable plan. Such a measure is commendable when applied to regular administration, but can be inappropriate when applied to control of error or misuse. A control function's effectiveness should not be measured by how little it costs to operate, but by how much will be saved for each dollar spent on control. We recommend that MSP develop such a measure of effectiveness, and use it to make sure all cost-effective controls are in place.

Staffing the Control System

The Plan's control efforts involve several different units, both inside and outside MSP. The Medical Association operates the patterns of practice committee, with the aid of resources and information provided by MSP. A unit of the Ministry outside of MSP operates the confirmation system. The Plan's Claims Division is responsible for all stages of claims processing, of which the edit and adjudication system is only one part. The Plan's legal counsel is involved when legal proceedings or legislative changes are contemplated.

The Plan's senior medical consultant is responsible for the day-to-day coordination of all these activities. He also represents MSP on the patterns of practice committee, supplies computerized profiles for the committee, coordinates the work of doctors advising on adjudication, and tells the confirmation unit when to do select audits.

We found that all resources now engaged in controlling misuse are fully used. Members of the patterns of practice committee feel they are already reviewing as many doctors as they can. Staff in edit and adjudication regularly work overtime to process their regular adjudication load, and have little time for special investigations. The confirmations unit has had to devote most of its resources to regular monthly confirmations, and has done only a few select audits in the past year. We concluded that MSP needs to devote more resources to ensuring it pays only for services which are medically required, properly rendered, and properly billed.

Looking Ahead

In the short and medium term, the Legislative Assembly should expect to see the results of several improvements MSP is making in the way it ensures that it pays only for medically required and valid services. These include more refined practitioner profiles, and improvements in the coverage and effectiveness of confirmations. Also, the Plan's new corrective tool, the audit committee, is being readied for use, and its work should be visible within the next year.

Over the longer term, we believe that MSP should further refine its control systems. It should improve its scrutiny of diagnostic services, salaried and sessional services, and subscribers' patterns of use. It should move beyond ensuring that services it pays for are within the norm, and ensure that they are medically effective. Finally, it should improve the way it teaches subscribers and practitioners to use medicare prudently.

Ministry of Health: Continuing Care

Audit Purpose

Our audit looked at whether the Ministry of Health's Continuing Care Division ensures that services it provides meet the needs of clients in a cost-effective way. We also examined how the Ministry ensures it receives value from the services it purchases from nursing homes. We did not assess the delivery of homemaker, home nursing, or physiotherapy services.

We performed the audit between May and October 1988. Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

The Ministry has made considerable progress in bringing together previously separated services to provide more accessible and integrated services to the elderly and chronically ill. However, we think it needs to do more to ensure that the program provides care in the most cost-effective manner to people requiring service. We also found that the Ministry lacks sufficient processes to ensure that nursing homes provide adequate quality service at a reasonable cost, and to ensure that residents enjoy acceptable health care and quality of life. The Ministry has recognized many of these problems, and has started to correct them by strengthening the management team at head office, and by implementing innovative experiments such as the Victoria Health project.

The Continuing Care Program

The Continuing Care Division provides health-related services to non-acute care clients with chronic health conditions that last longer than three months. The program offers homemaker, home nursing, and/or physiotherapy services to most of its clients, and admits them to nursing homes when home-based care is no longer considered appropriate. The majority of clients, about 85%, are over 65 years of age.

Admitting People

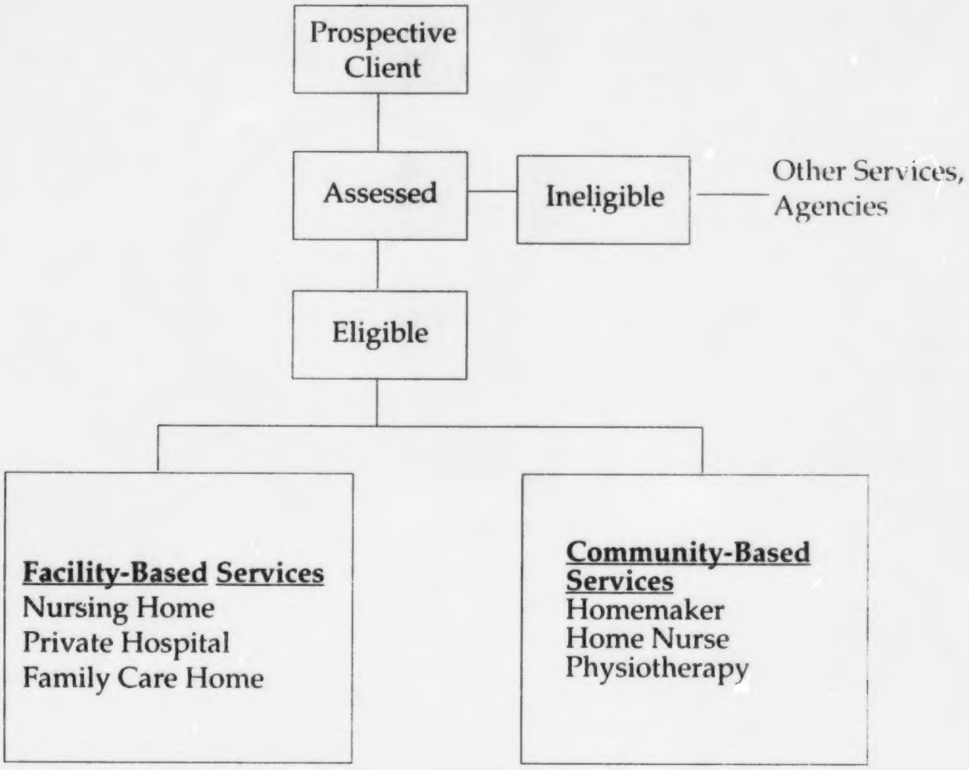
The Ministry receives requests for service from clients and their families, friends, doctors, service agencies, and social workers. In response to a request, it sends an assessor to interview the applicant for care. The assessor decides whether the applicant is eligible, and if so, selects the most suitable services (Figure 2.13). The assessor's job is to select services that will keep clients functioning in their own homes, or to place clients on waiting lists for nursing homes when that is considered necessary. In complex cases the assessors may consult with other professionals. The Ministry allows its clients to choose which nursing home they prefer.

The Organization

The Continuing Care Division of the Ministry of Health is decentralized. Across the province, local staff provide service from 21 health units, 5 of which are administered by municipalities. A small head office in Victoria provides central direction and control.

FIGURE 2.13

Overview of the Continuing Care program.


Prospective Client
Assessed
Ineligible
Other Services, Agencies
Eligible
Facility-Based Services
Nursing Home
Private Hospital
Family Care Home
Community-Based Services
Homemaker
Home Nurse
Physiotherapy

Scope and Expenditures of the Program

Since the program began in 1978, it has served many seniors and chronically ill residents of the province. It was started in an attempt to bring together several services, mainly for the elderly, which had been operating in a disjointed manner. By 1988 it was serving over 90,000 people (Figure 2.14). Over 250 facilities in communities around the province now provide a universally available nursing home system, while another 200 agencies provide homemaking and other services.

The program is the third biggest in the Ministry, after hospitals and the medical services plan. Figure 2.15 shows an outline of people served, and expenditures.

The Program Philosophy

The philosophy of the program is to keep clients functioning in their own homes as long as possible, rather than placing them in institutions. Because clients need help to remain safely in their homes, the program tries to provide services that allow them to do so. For instance, community recreational or day care services help reduce loneliness, a common cause of depression-related illness in the elderly. Also, a "meals-on-wheels" service helps keep elderly people with meal preparation problems from having to go to nursing homes.

The program tries to provide a "continuum of care" to its clients. The idea is to increase support gradually if a client grows more dependent, and to avoid abrupt escalations in service. The continuum is also intended to allow more flexible responses to individual needs.

Professionals working with the elderly support this philosophy. They have expressed concern about "warehousing the elderly" that is, removing the elderly from the mainstream of daily life and taking away their independence. There is also concern that entry into a nursing home is a final move, since few people who move into a nursing home ever return to the community. Although these concerns may represent some health realities, more often they reflect the fact that many families dismantle the client's home soon after his or her move to a nursing home. Removal of a home base makes return to the community more difficult. Because of these factors, the Continuing Care program seeks community-based alternatives before providing nursing home service.

The Coming Boom

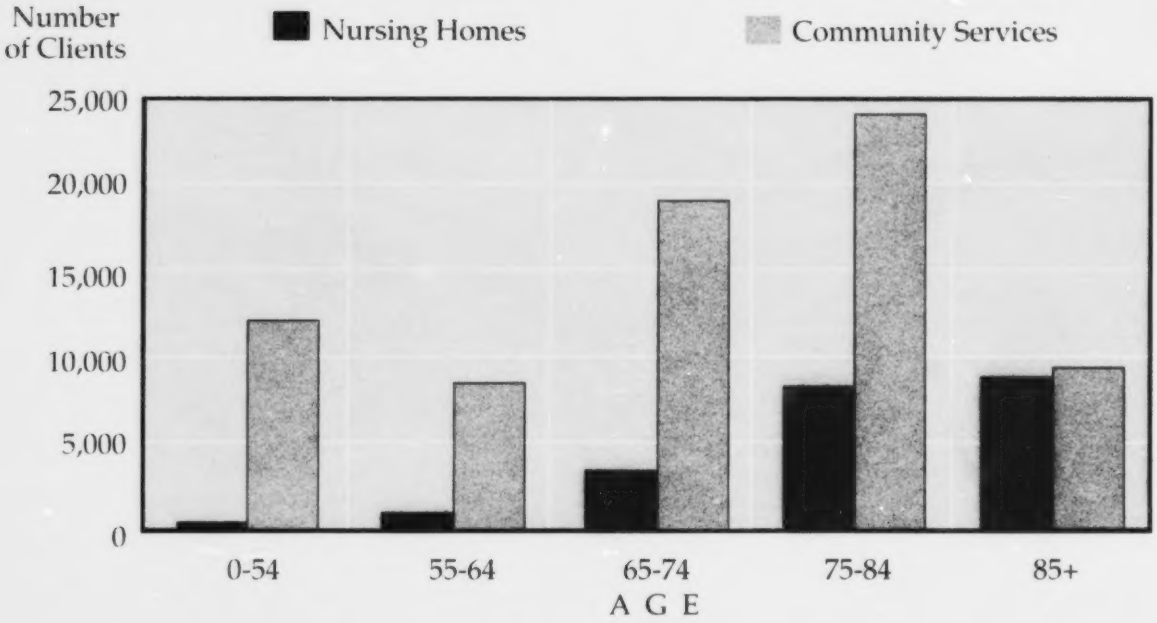
Projections show there will be dramatic increases in the elderly population by 2008 (Figure 2.16).

The biggest proportionate increase will be in people over 85, who have traditionally been the heaviest users of medical services. About 35% of such people are now in institutions such as nursing homes or hospitals. The expected increase of 125% in the over-85 population would mean large-scale capital expenditures on facilities, if these people continue to be placed in nursing homes at current rates.

FIGURE 2.14

Number and age of clients served by the Continuing Care program (1987/88 fiscal year)

Source: Continuing Care Division, Ministry of Health.



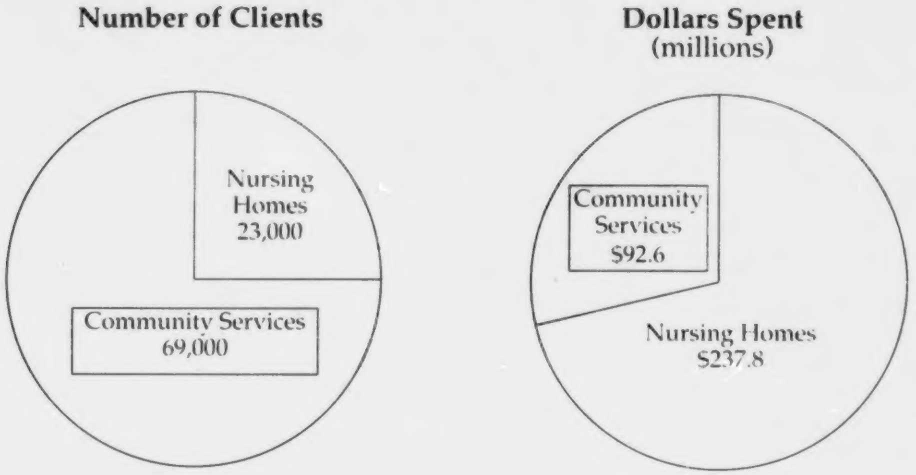


FIGURE 2.15.

Number of clients served by the Continuing Care program, and program expenditures (1987/88 fiscal year).

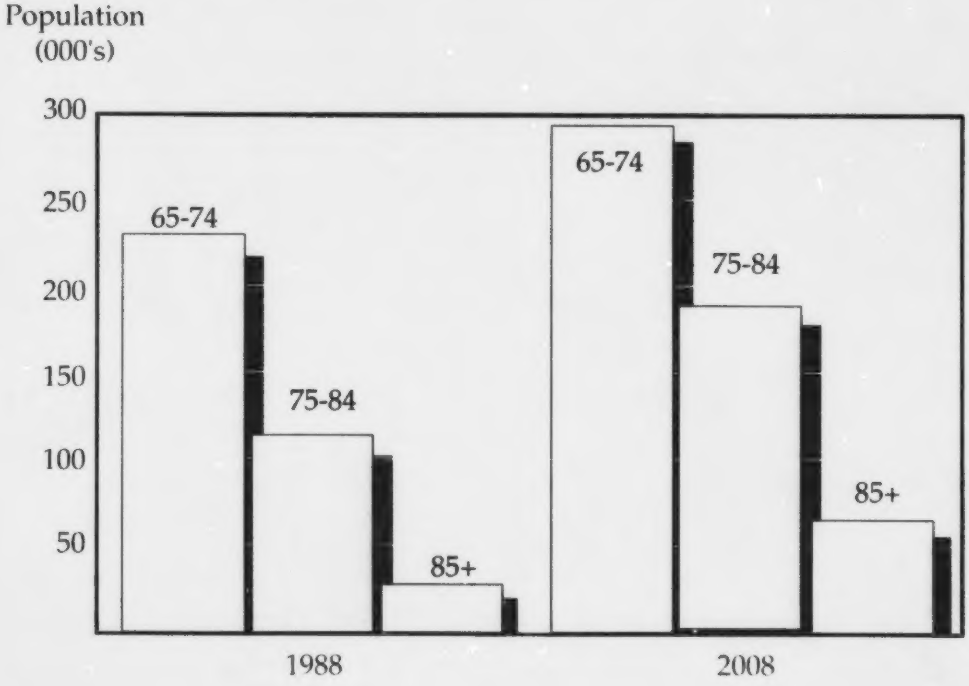


FIGURE 2.16.

British Columbia senior population projection, 1988-2008 (by age group).

Source: Ministry of Health

Providing the Right Service to the Right People

In designing the program, the Ministry needs to know what kinds of service are most cost-effective in postponing the entry of clients into facilities. This would include considering the humanitarian and medical circumstances, as well as the cost. Accordingly, the Ministry's processes for assessing new clients should provide it with reliable in-depth information, and ensure it selects the most appropriate and economical services.

Assessing Peoples' Needs

In selecting services for new clients, assessors make expenditure decisions that total over $300 million per year. The process that leads to these decisions should identify opportunities to keep people independent, while minimizing costs. We looked at the assessment process to see if it is providing the Ministry with assurance that the right people are being served, and that they are getting the most appropriate service. We concluded that it does not provide such assurance.

The Assessors: Orientation and Workload

The assessors are the "front line " people of the program. They are expected to make complex medical and social evaluations of new clients in a short time. As workloads have increased in recent years, the time available to see each client has declined. We found that although the assessors are hard-working and dedicated, their lack of on-the-job training and their workload inhibit the quality of the process.

Most assessors are experienced community nurses, although there are a few other professionals as well, such as social workers. The nurses' medical background helps them in making accurate judgments of client disabilities, and in communicating with hospital staff and physicians. The Ministry has recently decided to strengthen the assessment process by making technical assistance more available to the field staff. However, the assessment process also involves evaluating both the social circumstances and medical condition of elderly applicants. This requires assessors to have knowledge of gerontology and social work. Few assessors have extensive training in these areas, and ministry-designed professional development programs for assessors do not provide this knowledge.

The way assessors do their job varies across the province. Those in different health units spend varying amounts of time interviewing clients, and some are more likely than others to place people in facilities. These variances may be due to local factors such as availability of beds. The Ministry needs to analyze these differences more thoroughly to see if they occur for valid reasons.

The present approach to monitoring allows local deviations from ministry policy to occur. There are no ministry guidelines for the orientation of new assessors. They usually "learn the ropes" by working with experienced assessors for a short period of time, usually a week. Although local administrators monitor assessors by reviewing their reports, the Ministry does not follow up by periodically examining comparative patterns between health units.

The ministry assessors have experienced a significant increase in their workload in the last six years. Applications for service have grown by about 45% during that period, but the number of assessors (approximately 180) has remained approximately the same. Assessors now have an average of 400-500 clients each, but some have as many as 800. Although they do respond promptly to calls for assistance, they are now less able to promote self-sufficiency to families or clients.

The heavy workload of assessors prevents them from revisiting every client annually, as ministry policy requires, and therefore from adequately monitoring changes in client needs. As a result, some clients whose condition has changed may not receive a corresponding change in the services they receive. We think the Ministry should evaluate how the workloads affect the assessors' ability to keep service at appropriate levels.

The Assessment Process

The long-term care assessors usually conduct their interviews in applicants' homes. This allows them to see how applicants function in their own environment, and to evaluate applicants' family and community support. The process has the virtues of being simple, flexible, and non-bureaucratic. It is also a major strength of the program that entry to the full range of services is controlled at a single point.

The majority of assessment interviews with applicants for service are finished in an hour. The interview does not include an in-depth medical examination. Most clients accepted for care as a result of the interview receive home service. Where the assessor places an elderly person on a waiting list for an institution, ministry policy requires the assessor to contact the client's physician.

Strengthening the Process

We think the process has some drawbacks. The health problems developed by elderly people can be complex, and the causes of some conditions may be hard to discover without a clinical diagnosis. We believe the present long-term care assessment process may overlook opportunities for rehabilitation of some clients, leading to premature placement in nursing homes.

There is a special assessment process that includes a more thorough examination, but it serves only a small number of clients. In Vancouver and Victoria, four ministry-funded Short-Stay Assessment and Treatment centers (SSATs) handle a limited number of complex cases. The root causes of client disabilities are diagnosed and treated in the SSATs, allowing some people, who would otherwise be destined for nursing homes, to go back into the community.

The SSATs provide examinations by a team of professionals, including physicians, nurses, social workers, occupational therapists, physiotherapists, nutritionists, psychiatrists, and pharmacists. The most common causes of admission to SSATs are depression, decreased ability to function independently, and "non-specific decline." Many of the clients are described as "confused." A significant proportion have problems related to diet and prescription drugs.

The experience of the SSATs suggests there are benefits to be gained from an early examination and rehabilitation process. A ministry study found that over 50% of very frail people admitted to SSATs from their homes were able to return home after an in-depth assessment and a short period of rehabilitation.

Despite these benefits, SSATs are expensive to run, and therefore may not be cost-effective in dealing with less complex disabilities. However, we believe the Ministry should experiment with less expensive alternatives, such as having applicants undergo a ministry-designed evaluation by their personal physicians.

Providing Alternatives to Nursing Homes

Apart from identifying opportunities for rehabilitation, full medical examination or treatment at the assessment stage could give the Ministry useful information about its clients. This in turn would improve the Ministry's ability to develop innovative programs. We looked at the Ministry's processes for implementing innovations.

We found that the Continuing Care program is not sufficiently oriented to providing opportunities for the rehabilitation of clients after they have been assessed and admitted to the program. We also found that the Ministry has not sufficiently evaluated the potential of alternative innovations for delaying entry of clients into nursing homes. To its credit, it has started a health-delivery experiment in Victoria that shows promise, as discussed below.

Fulfilling the Philosophy

As shown by Figure 2.15, the Ministry services the majority of its Continuing Care clients without admitting them to nursing homes. This does not necessarily mean that it has maximized the use of home and community-oriented care. There may still be clients in institutions who could remain at home with suitable services.

The Ministry has not investigated the extent of the problem in British Columbia. It could be very different from the United States, where studies show that up to 30% of facility residents could have stayed at home, or Ontario, where a study found similar results. These studies suggest that the Ministry should investigate the rates of institutionalization in British Columbia. In doing so, it could evaluate whether it is meeting its own philosophy of promoting independence and community-based care.

Evaluating Alternatives

We found the Ministry operates long-established programs for home nurses, homemakers, and institutional-based care. It has paid comparatively less attention, however, to providing alternative programs in the middle of the continuum of care, and to evaluating their effectiveness. Furthermore, it is not oriented to providing people in nursing homes with opportunities to reenter the community. The continuum seems to flow in one direction only.

Despite this, the Ministry has managed to keep a higher proportion of clients at home since the early 1980s. It has done this by limiting the admission of new nursing homes to the program, and by encouraging ministry staff to choose services based at home or in the community. However, these efforts have not been accompanied by increased availability of such options, and the Ministry has not adequately evaluated their potential cost-effectiveness.

Respite care is an example of such an option. At present there are very few respite care beds available to Continuing Care clients in the province. Respite care allows the elderly person to go out of the home for a short period of rehabilitation and socialization, while giving a break to the family members who provide care at home. Ideally, it should be a planned activity, but usually it is done in a crisis when a family has become stressed from looking after an elderly relative who may be mentally unstable, incontinent, or both. Without a respite service, such a family may try to place the elderly person in a facility. The Ministry should assess to what extent respite care delays entry of elderly people to institutions or hospitals, and how adequate the supply of respite care is in communities across the province.

Funding for more established home-based services has also been tightened. For instance, the hours of homemaker service per client declined from an average of 22 hours to 13 hours per month between 1981 and 1987. The Ministry does not have sufficient information to know if this level of service is adequate, or if the reduction in service has led to premature admissions to more expensive forms of care, in nursing homes or acute care hospitals.

Getting Information

Good information is needed for planning and developing cost-effective alternatives. We found that the program's information system does not capture important information about the program's clients, such as what the clients' medical problems are, how they live, and what triggers requests for service. This kind of information is crucial to designing strategies for promoting home care. For instance, better knowledge of the problems handicapped clients have managing in their homes could be of value in planning alternative housing, or in adapting dwellings to enable people to remain home longer.

The information system also cannot provide management with sufficient information on client trends that have developed over the 10-year history of the program. Some data have not been captured by the system, and some are not accessible without considerable effort. We believe that making information more available is crucial to developing and implementing alternatives to the nursing home.

Experiment in Victoria

The Ministry is now examining community-based innovations as a part of an overall look at health services. In April 1988, in response to concerns about increases in the cost of health delivery in the province, the Ministry began a major experiment to find alternative ways of delivering services. This project is called the Victoria Health Project, and is being run in cooperation with the Capital Regional District and the Greater Victoria Hospital Society. Its first phase looks at services to seniors, since the delivery of these services constitutes the greatest cost pressures on the hospital system. Nearly 50% of hospital in-patients are elderly, and the Ministry is looking for ways to meet their needs more effectively and economically.

The project will experiment with various concepts in health care delivery. The James Bay Community Centre, for example, will become a "one-stop" center for seniors, offering a wide range of services. Other proposals include training of family caregivers, adult daycare innovations, outreach programs, home safety checks, and meal services.

The Ministry will need to sustain this kind of program innovation to cope with the coming increase in the number of old people. By learning from innovations like the Victoria Health Project, it may well be able to reduce the institutionalization rate and the costs of providing required services.

Value for Money from Nursing Homes

Even if new alternatives prove to be successful, there will always be Continuing Care clients whose needs are best met in a facility. In its Continuing Care program, the Ministry funds nursing homes which provide care and accommodation to these clients. Under this system, the Ministry contributes about 64% of annual operating costs of the nursing homes in the program. The clients pay about 31%, and the rest comes from federal sources. Facility care can be expensive, costing the Ministry as much as $70 per day per resident. In view of this, we looked at how the Ministry buys this service from nursing homes across the province, and how it assures itself that it is getting consistent value for money from the facilities.

We concluded that the Ministry's processes for monitoring and funding nursing homes do not give sufficient assurance that it is paying the proper amount for the services it receives, or that it is receiving the services it wants.

A Sheltered Market

We found that the nursing homes funded by the program are sheltered from the forces of open competition. This reduces the Ministry's chances of getting value for money: the quality of service the nursing homes provide has little effect on their supply of customers or revenue. It is difficult for new competitors to enter the market, as the Ministry tightly controls the introduction of new facilities to the program.

With the restriction on open competition, we believe the Ministry should set the standards of quality it wants, and then pay nursing homes enough to achieve those standards efficiently. Our audit investigated the Ministry's processes for doing this.

Ministry concerns about quality of care in nursing homes center on the basic safety of the residents (e.g., hygiene, physical safety in the building, nutrition) and on health care (e.g., nursing, access to physicians, medication control). As well, the Ministry is concerned about the quality of daily living that nursing homes offer: they should be as homelike as possible, there should be suitable social activity programs, and residents should be treated with respect and consideration.

Quality in Nursing Homes

Quality of Care Standards

The Ministry has been working on quality of care standards for homes for a number of years, and they have been slow in coming. Draft standards were circulated to facilities in 1987. The Ministry now plans to introduce them in 1989, and to make them compulsory in 1990. The standards generally state the processes that should be followed in nursing homes, and do not state expected outcomes, such as the effect on resident well-being, from these processes.

Nursing home operators and ministry staff regard the proposed standards as a step forward. Many facilities have developed standards of their own, but still favor the introduction of standards for all nursing homes to reduce variations in quality. The Ministry has drafted the new standards in fairly general terms.

Linking Standards with Funding

Specific standards would help the Ministry to arrive at a proper basis for funding nursing homes. For example, if the number of social program workers needed per client were specified, then the Ministry would be able to see whether funding was sufficient to enable the required number to be hired. The proposed ministry standards manual indicates that there should be a planned social and recreational program, but does not say how much of that type of service would be considered adequate. This means that the Ministry cannot make the necessary link between funding and quality.

Enforcement Choices

The proposed standards would be more likely to succeed if they were enforced from a solid legislative base. The Ministry currently lacks the statutory backing it needs to deal effectively with nursing home operators, because the regulations attached to the *Community Care Facility Act* are not specific enough about quality of care. However, the Ministry is drafting a new Continuing Care Act, which will include the proposed standards for quality of care, as well as enforcement measures.

At present, the Ministry can deal with problem facility operators by closing them down or withdrawing funding. However, these options are rarely used because many residents of nursing homes are frail emotionally and physically, and would be at risk if they were suddenly uprooted from their residence. The Ministry should be able to influence nursing home operators without affecting residents negatively.

We think the Ministry should clarify its policies for dealing with problem facilities, by formulating a graduated set of responses, ranging from warning letters to closure. There are a number of potential options in between, such as reducing or stopping admissions, or intervening more directly in the management of a facility. The Ministry could also consider the possibilities of rewarding excellence. We recognize that there are difficulties associated with each option, and that careful judgment is needed. Nevertheless, effective enforcement is required if the program is to control the quality of care received by residents.

Inspection of Nursing Homes

In general, inspection of nursing homes is incomplete and reactive, rather than thorough and preventive. Responsibility for enforcing basic safety and health rules in facilities rests with licensing staff in local health units. This arrangement has been unsatisfactory, both for the Ministry and the facilities. The licensing staff have been heaviliy committed to other public health activities, and this has led to extended intervals between inspections of nursing homes. Also, they have not been trained in all aspects of the Continuing Care program, and so do not adequately monitor some important areas of facility management, particularly in regard to quality of care issues.

However, Continuing Care staff visit clients in facilities to reassess their care levels, and may notice problems, which they would report. The Ministry follows up on these reports, and on complaints from clients or their families. However, the visits and follow-ups are not intended to be evaluations of facilities, and do not provide regular information on compliance with basic safety and health requirements.

The Ministry has recently reviewed its licensing process, and reorganized the department responsible, but the problem still remains that the inspection process is not comprehensive enough. Some ministry staff advocate moving to a team approach, involving both licencing staff and Continuing Care specialists. Meanwhile, the issue is unresolved, and the inspection process remains unsatisfactory.

Linking Quality and Funding

We found that the Ministry's funding methods for nursing homes do not adequately recognize quality. For instance, if two facilities offered the same quality of care to the same number and type of clients, they would not necessarily get the same ministry funding. Alternatively, if one offered a higher quality of care than the other, this would not necessarily be reflected in a higher funding rate. Instead, the Ministry's funding formula for nursing homes is based, with some adjustments, on the actual cost of operating them in the past, without reference to the quality they provide. Thus, a low quality nursing home could continue to survive indefinitely, while a good quality nursing home would not be financially rewarded for excellence.

Because the demand for beds is high in relation to the supply, most facilities are full all of the time, regardless of the quality of care they offer. The more popular facilities have long waiting lists, some more than two years. This sometimes forces clients who are in urgent need of placement to go into less attractive nursing homes. When they subsequently transfer to the facility of their choice, they are quickly replaced by the next clients on the waiting list. In this way, less attractive facilities are able to remain full. While many of these facilities may offer an acceptable level of care, they can find it difficult to improve their service because of the high turnover of residents.

Older Facilities

Some older nursing homes do not meet current building standards, and this can inhibit the quality of care provided in them.

Many of the older facilities have rooms designed to accommodate up to four people. This limits residents' privacy, and is not acceptable by today's ministry design standards. As well, many older facilities have hallways that are too narrow to accommodate wheelchairs and people walking, and lack bathrooms in each suite, thus not meeting current ministry standards.

These facilities were admitted into the program when it started in 1978, under a "grandfathering" arrangement that waived requirements for existing buildings. This arrangement was necessary at the time to preserve continuity of service. Since then, the Ministry has funded improvements in many facilities, but several still have fundamental design features that create problems for staff.

For instance, nursing home care aides find it difficult to lift and turn heavy bedridden residents in narrow rooms designed for more mobile people. Some facilities were built as multi-storey residences for people who could walk. Now these facilities are occupied by people who are not able to walk, and staff have problems fitting wheelchairs into elevators, particularly when there is heavy traffic, such as at meal times.

Because of the prohibitive costs involved, enforcing current design standards for older facilities is not a realistic option at present, and very few facilities have been closed. The Adult Care Facilities Licencing Board had considered setting a time limit for operators to upgrade, but is now proposing to enforce only those standards considered essential to the health and safety of the residents. To achieve value for money in the long run, we concluded that the Ministry should establish a plan for gradually replacing facilities that cannot meet modern standards, in conjunction with its overall plan for managing the supply of beds in local communities. At the time of the audit, a five-year planning document was being prepared that addressed this issue, as well as others.

Efficiency of Nursing Homes

An efficient nursing home is one that is well managed, providing a desired standard of quality at minimum cost. In our audit, we looked at how the Ministry assesses the efficiency of nursing homes to see if it is getting value for money. We concluded that the Ministry does not have the kind of information and analytical tools it needs to gain full assurance that nursing homes are efficient.

Efficiency Standards

At present, the Ministry receives a high volume of complaints from the nursing home industry about funding. This was the central issue in the minds of the facility operators we heard from during the audit. Many complaints about the funding system center on the large salary gap that has opened up between union and non-union facility workers, creating problems of morale and high turnover. Many facilities have also complained that they are not able to provide adequate quality of care with present funding levels. We believe the Ministry needs to assess the validity of these funding complaints properly.

Some facilities have sought other sources of revenue, creating difficulties for the Ministry. For example, many facilities have started charging additional fees to residents for incontinent pads. Other facilities charge for superior rooms. Although ministry policy prohibits "room differential" charges where they would cause hardship, the Ministry has not always enforced the policy.

We think the Ministry has not properly assessed the effects of tight funding on the nursing home industry, and has not developed an adequate basis for deciding how efficient nursing homes are, and how much funding they really need. To deal successfully with these issues, we believe it needs to develop efficiency standards.

At present, the Ministry does not have the kind of information or analytical tools to evaluate the efficiency of facilities properly. The quarterly financial reports it receives from nursing homes contain basic financial and payroll information, along with some statistics on residents. These reports, however, receive a limited review in the Ministry's accounting department, and do not lend themselves to an effective analysis of efficiency.

Connecting Efficiency and Funding

The Ministry's payment formula does not differentiate between efficient and inefficient operations. In fact, similar to many public sector funding systems, the Continuing Care payment method can encourage inefficiency. If nursing home administrators do not spend all their budget money in the current year, the Ministry reduces their allowance in the next. This creates an incentive for administrators to spend to their budget maximum.

The Ministry tried to resolve this dilemma by allowing facilities to retain part of the surpluses gained as a result of efficiency. However, it later changed its policy, as some facilities were thought to be accumulating excessive amounts of such surpluses.

We think the Ministry needs to get better information on efficiency in the nursing home industry. For example, how many staff are needed to provide adequate levels of care? What kind of staff should be used, and how should they be organized? As well, the Ministry needs to look at the potential for extending group purchasing schemes for goods and services.

The Ministry did make a start on answering some efficiency questions in 1988. Several facilities in the Vancouver area agreed to conduct a detailed analysis of staff activities, and to give the information to the Ministry. The Ministry will be able to use the information to arrive at a more reliable basis for funding staff levels in nursing homes. We feel that more of this kind of analysis is needed so that the Ministry can better understand how an efficient nursing home operates.

The Nursing Home of the Future

Traditional nursing homes are not oriented to providing higher levels of medical attention needed for the older and more acutely disabled clients they now care for. Gerontology, meanwhile, is providing new insights about the elderly and their needs, and thus is creating opportunities for improved care. The Ministry should reevaluate the role of nursing homes in the continuum of care. There are many questions regarding nursing homes which could affect the cost and type of care they provide, such as:

- whether facilities should be converted to handle all levels of care, or whether specialized facilities for psychogeriatric clients are needed;
- whether care aides, who are often the primary givers of care, but who usually have limited training in medical and social problems of the elderly, should receive training in rehabilitation and behavior control;
- whether it would be cost-effective to employ professionals such as physiotherapists or psychologists in nursing homes;
- whether medical consultants skilled in geriatrics should be hired on a sessional basis to provide services in nursing homes; and
- whether facilities should operate community outreach programs.

Another special challenge facing nursing homes is the presence of growing numbers of elderly with behavioral problems or mental degeneration. Concern has been expressed by facility operators about mixing confused, anti-social, or potentially violent residents with frail elderly people. Some facilities segregate such residents into a secure wing. A few have provided innovations such as an outdoor, fenced-off walking circle (one common feature of Alzheimer's disease is compulsive pacing). However, these secure areas are intended primarily to protect other residents rather than to rehabilitate problem clients.

A significant number of facility residents suffer from some degree of mental disability. The Ministry does not recognize clients with behavioral or mental problems as a separate group in its funding formula. For example, the secure areas that have been established in some facilities do not have specialized staff, as funding for such staff has not been provided by the Ministry. Nevertheless, these clients may need special supervision and care, and nursing homes may need building design alterations to accommodate them.

Control and Direction of the Program

In our audit, we looked at some of the root causes of the problems that managers have experienced in gaining control and direction of the program. We found that the program has suffered from organizational problems, as well as from a lack of adequate information for both routine management and long-term planning. At the time we started our audit, the Ministry hired additional management staff to address these problems.

Organizational Problems

Head Office

The history of the Continuing Care head office is one of frequent change in personnel and organization design.

The head office staff have had difficulty finding the time and resources to deal with policy and funding issues. Complaints coming in from nursing homes, clients, and others about funding and various matters, require research to provide a proper response. This has often diverted significant managerial resources away from proactive program administration.

A new organization structure was introduced just as the audit started. The new organization includes additional staff to provide technical support for the program managers, and to perform the analyses needed to respond to the complaints and funding requests. This should enable management to revitalize its leadership of the program, and make the workload for the managers more tolerable.

However, the new structure does not fully address the Ministry's need for policy development resources. Although the Continuing Care program focuses primarily on the elderly, the Ministry has neither a gerontologist on staff, nor an advisory committee drawn from the elderly community. We think the Ministry should consider ways of getting better access to the expertise these people have to offer.

Health Units

Continuing Care staff at local health units share space and clerical and computer support with other health unit staff. In many cases this has not worked well. For instance, we found that because assessors were not provided with adequate clerical support, they lost valuable professional time performing filing and other routine tasks.

Information System Problems

Meeting Management's Needs

The original Continuing Care computer system was designed to handle routine accounting and bill-paying functions. Over the years, amendments to the system have been made in an attempt to provide management with more sophisticated information. Instead of having the desired effect, however, these changes have damaged the reliability of the system. It still performs its bill-paying function relatively well, but there are extensive problems with the accuracy, timeliness, and readability of the management information it produces.

The Ministry has prepared an ambitious plan for a major overhaul of the information system. It will take a long time to implement, and this raises concerns about whether it will meet the information demands that will exist by the time it is implemented. To cope with the lack of regular information, the Ministry has conducted special studies to gather some program effectiveness and planning information. In developing the system, we think the Ministry should distinguish between information it needs regularly, and information it needs every few years for strategic planning. The latter may best be gathered through special studies, rather than by all-encompassing computer systems.

Mandate, Planning and Reporting Problems

Mandate

It is desirable for each government program to be supported by an act which gives the program a mandate to operate. Continuing Care, however, has no such act. The program was started in 1978 under an Order-in-Council, which has since been rescinded. The only enabling legislation for the program is the *Supply Act*,which allocates funds to the program. The Ministry has started to address this unsatisfactory situation by drafting a Continuing Care Act.

Planning

The Continuing Care Division has started to develop a strategic plan. The current management team is formulating a statement of goals which should give the program a clearer sense of direction than it has had until now. Without an operating plan and targets, staff have prepared annual budgets based on previous spending and utilization patterns. The Continuing Care Division has not given enough attention to questioning the basis for these patterns.

Reporting

The Ministry's reporting for the program in its annual report to the Legislative Assembly does not give assurance that the program is achieving value for money. The report gives some information on the program and the population served, but it does not discuss effectiveness and efficiency, because that information is not available.

Because the Continuing Care program has become more complex, we think a more structured approach to program evaluation is required. Measures of success for the program are needed to show that it is achieving value for money. The Ministry should monitor performance of these indicators by developing its information and reporting systems.

Looking Ahead

The Legislative Assembly should expect the Ministry of Health to develop its knowledge of the needs of elderly people, and to develop cost-effective programs that meet their complex health needs. The Ministry should also be expected to review the role, staffing, and design of nursing homes in the program, and to fund them so as to provide adequate quality standards at a reasonable cost.

The Legislative Assembly should also expect the Ministry to set the program on a more solid foundation. To meet the increase in demand for continuing care programs in the future on a cost-effective basis, the Ministry will need to firm up its mandate, philosophy, and planning and evaluation processes.

Ministry of Health: Public Health

Audit Purpose

This audit examined the management process in the province's public health service. We assessed the extent to which health units deliver the programs they are directed to by statutes and other authorities, and examined how the Ministry selects other services to be offered in the health units. In addition, we assessed whether management operates the health units efficiently.

The public health system we studied is that part of the Ministry of Health labelled "Preventive Services" in the *1988/89 Estimates.* Our focus was on the field portion of Preventive Services, although we also reviewed the functions of head office as they relate to the field. We concentrated on the 16 provincial health units, but as well reviewed the municipal health units for comparison. We did not examine laboratory functions.

The audit was conducted in the period, May to September 1988. Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

We found that health units offer all of the services required by statutes and other authorities, but that they were not delivering the programs to the desired service levels in all cases.

At the time of the audit, the Ministry was reconsidering its program priorities and methods. This review was prompted by the Ministry's concerns about the ability of the health units to sustain existing programs, and by its desire to expand programming into lifestyle and environmental health areas. We believe the process used to select programs was reasonable in the circumstances, although it is too early to assess the effects of the new directions. We are concerned that the changes being introduced to the field need a greater investment of management attention to be implemented successfully.

We found the efficiency of the health units to be reasonable, but less than optimum. At the time of our audit, the Ministry was reviewing the organization and delivery methods of the health units in an effort to improve efficiency. Decisions had not yet been made on any changes.

The Public Health Service in British Columbia

Programs

Public health programs focus on preventing disease and injury, and promoting healthy living. The major programs are public health nursing, which includes immunization, baby clinics, and school nursing services; and public health inspection, which involves such services as granting sewer permits and conducting restaurant inspections. Most health units also offer programs in nutrition, dental hygiene, facility licensing, speech therapy, and hearing.

Roughly half of the current health unit programs are required by statute: communicable disease control, public health inspection, school health services, and the licensing of child daycare centers and facilities for the elderly and disabled. The other half, although not required by statute, are services (such as mother/child health) that are well established and recognized as part of a traditional public health program, or are services (such as speech therapy and hearing) that are not covered by the Medical Services Plan.

Public health programs are distinct from the rest of the health system. Public health emphasizes the prevention of disease and disability, while the other programs, such as hospitals and the Medical Services Plan, provide care or cure once a disease is contracted or an accident occurs. Public health serves whole populations; the other programs serve single patients. The effects of public health programs usually take some time to show up; the results of the other programs are often quickly apparent. These differences tend to give public health programs a low profile—indeed, such programs may hardly be noticed if they are successful.

Our society generally agrees that all citizens should receive the care and cure health services they need when they are sick or injured. While society also generally agrees that prevention is desirable, it has not reached consensus as to what should be done. Management's challenge is to find a credible answer to this question, and to implement an efficient delivery system.

Organization

The public health service in British Columbia is organized by health unit, with 21 such units covering the province. Sixteen are provincially operated. There are also five municipally operated systems in the Lower Mainland and greater Victoria. The provincial service is delivered at the community level by 1,300 staff in 120 offices. Each health unit has a Medical Health Officer who is responsible for the medical services provided. By law, all Medical Health Officers are medical doctors. In most health units, the Medical Health Officer also has administrative responsibility for the unit.

Each provincial health unit has an advisory board made up of representatives of municipal councils and school boards in the health unit area. The Ministry of Health determines the programs to be offered, sets standards for the programs, and approves the budget of provincial units. In the municipal health units, the boards are committees of the municipal councils, which approve the health units' programs and budgets.

In the 1989 fiscal year, the Ministry of Health budgeted $43 million for Preventive Services of which $28 million was to run the provincial health units. The Ministries of Health and Education together contributed $11 million to share about 40% of the costs of the municipal units. Provincial spending on Preventive Services makes up less than 2% of the Ministry's budget. The size of the budget belies the importance of public health, since many of its programs prevent disease, thereby reducing demands on programs, such as hospitals, that make up the majority of the health budget.

Complying with Authorities

We found that the health units are offering programs designed to provide all of the services called for by statute and the Ministry; and that they are trying to comply with the recommended service standards. However, in many communities they have been unable to sustain all of the existing programs at the desired service levels.

Health units are subject to direction from three sources. The first are statutes: acts passed by the Legislative Assembly, and the accompanying regulations. Second, direction is received from the Minister of Health and ministry executive. The third source are the advisory boards made up of municipal council and school board representatives in the health unit area.

We found that the advisory boards rarely exercise any direct powers over the provincially-run health units. Although health units and boards discuss the services offered in the various communities, and units respond to requests made by the boards, health unit management does not generally look to the boards for direction and boards do not actively influence the programs offered by health units.

The health units do not distinguish between programs based on statutes and those requested by ministry head office, because almost all program direction originates from head office in any case. Generally, head office gives the health units specific direction as to what programs to offer, what methods to use, what service level standards to meet (e.g., inspection frequencies), and what data to report back.

We found that the health units offer programs designed to provide all of the services called for by statute and the Ministry. The units also try to comply with the service standards. However, because of current work practices and staffing levels, health units in many communities cannot sustain service levels at the standards set by head office or, where the field has discretion, at levels thought to be professionally sound. For example, restaurant inspections undertaken to reduce the risk of food poisoning are not done with the frequency called for by the standards; and speech therapy, often required by young children to overcome speech impediments that may affect their intellectual or social development, is often delayed longer than considered acceptable by the standards.

We found that the health units are fully using all the resources available to them. However, we also found that the supply of services would be better matched with demand if the Ministry addressed some of the problems currently reducing productivity in the units. (These are discussed below in the section on "Operating Efficiently".) Recognizing the pressure that health units are under to deliver their programs, the Ministry started in 1987 to reconsider its program priorities. The process it is going through is also designed to balance programs and resources, and to move public health into new areas. We believe this process is the proper approach to dealing with the problems that health units have encountered in delivering their programs.

Choosing the Right Programs

At the time of our audit, the Ministry was in the midst of its reevaluation of program priorities and methods. This review, begun in 1987, was prompted by both the inability of the health units to sustain existing programs, and the desire of the Government, the Ministry, and the health units to expand programming into new areas of service. We support the need for the reevaluation, and believe the Ministry has used suitable evaluation methods in the circumstances. It is still too early to assess the results of the changes recommended in the plan developed from the review. However, we think the Ministry's management of the initial stages of implementation of these changes should have been stronger.

Choosing the Current Programs

Almost all the programs offered by the health units at the time of our audit had been in place for many years. We did not evaluate the process for selecting these existing programs, some of which, such as immunization and sanitary inspection, originated in the 1800s. We believed the issue of whether new directions were needed was of much greater relevance, and so concentrated on that issue in the audit.

New Directions for Public Health

Starting in 1987, head office, with advice from the health units, began to redefine the areas that would be served by public health, and to redefine priorities, organization, and methods. We believe that the Ministry's recognition of the need for this reevaluation was somewhat belated, but that its methods of carrying out the review were suitable in the circumstances.

The 1980s have been a trying time for the province's health units, as they have been for many other publicly funded programs in the country. Budgets and staffing were reduced, and traditional program delivery methods were challenged.

In the same period, several new demands were placed on the public health system. Populations increased and society encountered new problems, such as AIDS and environmental contaminants. In addition, advances in knowledge and technology were made, leading to improvements in such areas as vaccines, dentistry, and hearing aids, which made enhanced service possible.

Also during this time, new direction came from the widely growing acceptance among health care professions that many of the health problems being treated by doctors and hospitals were related to individual lifestyle factors, such as smoking, alcohol, drugs, diet, exercise, and accidents. The effects on individual health of environmental factors, such as air pollution and exposure to chemicals, were less well understood but also considered to be important. It was believed that preventive measures could reduce lifestyle and environmental risks, thereby enhancing health and reducing demand on the expensive curative part of the health care system.

With these developments, health units came under pressure to provide more and better programs. The Ministry initiated only limited changes in programs in the 10 years preceding 1987. Since then this condition has improved for some significant public health issues (e.g., AIDS information programs, smoking restrictions).

The initiatives taken by head office and the health units since 1987 have led to several new directions. These include:

- focusing service on high risk groups;
- promoting healthy living;
- involving the community in setting priorities and delivering services; and
- improving the coordination among related service agencies.

Implementing these changes began in 1988, and it was too early at the time of our audit to tell whether they would succeed. While we commend the Ministry for acting in the last two years to reevaluate its programs and methods, we believe it was slow to respond to the marked changes in its environment.

The process of reevaluation used by the Ministry relied on the collective professional experience of the participants. Although we would prefer a process based on rigorous evidence of the cost-effectiveness of the various program and delivery alternatives, we believe the process used was reasonable in the circumstances. The process involved those with knowledge and expertise in the field, and included representation from the various interest groups. Decisions were based on statistics of disease incidence and on judgments about the likely effects that preventive health measures would have on the causes of target diseases. The defined program seems to be similar to that advocated recently by the Federal Government, and to initiatives being undertaken in other modern public health systems.

Rigorous program evaluation in public health is difficult for many reasons, including the long period required to measure effects. We agree with the Ministry's decision to act rather than wait. Also to its credit, the Ministry recognized that health units lack output measures and the basic data needed for program evaluation, and it has made developing these tools a priority of the program.

Managing Change

Management was implementing the first stages of the new plan at the time of our audit. Most changes, however, will not occur until the 1990 fiscal year, and depend on the Ministry receiving budget support for its new public health directions.

In 1988, the groups responsible for developing the new programs and methods started to acquaint the health units with the new ideas. Health units were also encouraged to begin implementing some of the new ideas, as time, interest, and budgets permitted. At the time of our audit, we observed that health unit staff were confused and concerned about the new program. Some health units started to make changes and then reverted to previous practices. Other early changes did not receive the well-organized support they needed to ensure their success. Overall, we saw the changes getting off to an unsteady start, and we believe that the Ministry may encounter serious difficulties by proceeding without a well-conceived plan for managing the changes. The new program is a long-term one. It will take continuing commitment over many years to implement the changes and make them work.

The introduction of the new concepts to the health units was complicated by a concurrent reorganization of head office. This added considerably to staff's uncertainty as to how to proceed, and what management's commitment was to the new directions. We believe this reorganization emphasized the need for thoughtful management of the change process. Even though the process has started, we recommend that the Ministry prepare a thorough plan for completing the implementation of the new programs and methods.

Operating Efficiently

Although we concluded that the health units were delivering their existing programs reasonably well, we think the Ministry has several opportunities to close the gap between the demand for existing programs and their supply, by improving productivity and using available resources more efficiently.

Doing the Job Right

We found that health units were generally well organized and staffed by competent personnel.

Public health programs need to be accessible to people in every area of the province. In recognition of this, the Ministry has established a hierarchy of offices so that program staff are either located directly in the community they serve, or able to travel regularly to various communities. Because of its dispersed delivery system, the Ministry has hired staff with the qualifications and personal aptitudes to work without close supervision. Management is centralized in each health unit so that interaction with staff is abetted, and managers travel to community locations to observe staff performance and assist as necessary. We believe the Ministry has used professional skills appropriately, and has achieved a reasonable balance between being locally accessible and keeping management overhead low.

Staff competence also contributes to health unit efficiency. From long experience with its programs, management has clearly defined the qualifications required for the positions in public health. Although health units have had difficulty recruiting staff during the last five years, we observed that they have continued to use a careful selection process to ensure only well-qualified staff are hired. Furthermore, because most programs have been offered for many years, staff have accumulated considerable experience in delivering them.

Improving Efficiency

As mentioned previously, the demands now placed on health units surpass the units' ability to provide services. During our audit, we identified several opportunities whereby the Ministry could improve productivity, and by so doing, close the gap that has developed between demand and supply.

We found that health units frequently operate with staff vacancies. Health units have experienced high staff turnover and have been slow in filling vacancies, particularly in northern and remote areas. Consequently, the units frequently do not have a full staff complement, which means services must be curtailed and the workloads of remaining staff increased. As well, recruiting takes management time away from other important duties. The new union contract includes salary adjustments for health unit positions, and this should allow health units to fill openings more promptly. The Ministry should work to resolve the remaining impediments to full staffing.

We believe that reducing staff workload would actually increase productivity. The demand for most public health programs is directly related to population. During the 1980s, when populations grew and new programs were started, staff numbers were reduced. Consequently staff workloads grew as increases in productivity were not sufficient to compensate for reduced staffing. We believe staff are now so busy that inefficiencies are resulting. These have shown up in a number of ways. For instance, staff are having to switch between work demands so frequently that jobs do not get finished; and they do not have time to plan or to take training (both of which would help them get more work done in the long term). To achieve optimum efficiency, we think health units should manage workloads so that extended or indefinite periods of overload are avoided.

We also believe that the health units could be more productive if they worked more harmoniously with the ministry head office. The barriers to harmony are distance, changes in personnel, and differences in work cultures. Better communication would allow head office to provide a link through which health units could share in professional learning. It would also improve head office's understanding of health unit plans, thereby reducing any disruption caused by ministry demands and allowing ministry staff to be of more assistance when problems arise in the field. We think head office should develop more effective communication with the health units. Working toward a shared set of values, more frequent meetings with health unit staff, and regular visits to the field would improve the situation.

We believe improved support to professional staff would also increase their productivity. Current problems range from noise distractions in some offices because they are not soundproofed, and insufficient training in new programs and new technology, to shortages of clerical staff, vehicles, and computers. Although we have not undertaken a thorough cost-benefit analysis, in several cases it appears the costs of improving support would be more than offset by improved staff and management productivity.

In addition, we believe more could be accomplished with current resources if management's capabilities were developed. We found that health units are now under-managed. They are run by health professionals, many of whom have not had extensive training as managers. As well, the size of the present management job in the health units is very large because management carries both technical and managerial responsibilities, and the number of staff to management is high. With the many demands on their time, management finds it difficult to devote much time to directing and controlling staff. Consequently, staff spend time on matters of minor importance and struggle to solve problems on their own. Furthermore, management lacks the time to develop cooperative networks with other health providers, which would assist health units perform their function.

The role of management in the health units will increase with the new program directions. The Ministry should offer more management training and concentrate on simplifying the management process to help reduce the demands of the job. Organization structures and systems should be kept simple, and the pace of change matched to management's ability.

Organization Innovations

The public health service has recently tried an alternative organization approach as a means of improving the efficiency of health units. The early results are inconclusive, but we support the Ministry's effort at innovation.

For the last two years, the Ministry has tried a different management model in the four northern health units. The administrative duties of the health officer were separated from the medical duties, in effect creating two positions where there is only one in other health units. This was tried in an effort to overcome problems experienced in attracting doctors to northern postings who could handle both duties. In one of the health units using this model, we found that management was able to attend to matters such as community and doctor liaison, which other health units did not have the time to do. Although the early results with this model are inconclusive, the experience should be useful when organization alternatives are considered.

The municipally-run health units provide another organizational model that can be compared to ministry-run units. In comparing the two levels of health units, we found that the municipal units offer similar services and use similar quality standards to those of the provincial units. However, we also observed two differences. Municipal units were somewhat more flexible and innovative in meeting demands, and they used some service delivery approaches not taken by provincial units. In addition, municipal units provided a slightly enhanced range of services, which likely reflects their relatively greater budgets.

The organizational strengths of the municipal health units are local decision-making and larger management groups. Having local boards allows the municipal health units to avoid some of the communication problems experienced by the provincial units. The larger management groups allow more time to be devoted to the extensive responsibilities of management.

We believe this model is working well where it is in use. However, it may not be as effective in areas now served by provincially operated health units where there are small, dispersed populations. In addition, the municipal model may not be transferrable to the provincial units, which do not have an existing "parent" board with the statutory authority to raise and spend money. As well, the relatively greater municipal budgets result from levies on local taxpayers, whereas the provincial health units are now 99% funded by the Province.

Reporting to the Public

The portion of the Ministry's annual report devoted to public health and the annual reports of the health units do not provide adequate accountability information.

We examined how well the Ministry reports to the public on the money it spends and the results it achieves. In addition to the ministry annual report, each health unit also publishes an annual report.

We found the information about the public health system in the ministry annual report to be inadequate for public accountability. The report contained a description of the program and some of its activities, but failed to clearly identify program objectives, clients, expenditures, and results.

The best of the health unit annual reports provided more information on clients and results than did the ministry annual report, though the entire accountability picture was still incomplete. In our opinion, all the health unit annual reports should be clearly written in layman's terms, so that the public can understand the health units' operations.

Looking Ahead

The Legislative Assembly should expect to see changes in public health programs as the Ministry implements the plan developed from its reevaluation of programs. The programs established should meet community health needs in an effective way, be complementary to other health care providers, and be realistic in their requirements for skills and funding.

As well, the Assembly should expect better public accountability reporting from the Ministry regarding the public health service.

Response of the Ministry of Health

The Ministry of Health welcomes the Auditor General's independent and objective appraisal of the management and operations of selected programs.

As a preamble to specific comments relating to each of the Audit Report's sections some general observations are offered as perspective on the timing of the report, the longer-term objectives of the Ministry, and the nature of the relationship between the patient, practitioner and the Ministry within the British Columbia health care system.

The comprehensive audit was carried out at a time when the Ministry was undergoing a fundamental restructuring and several of its major programs were in the process of changing program priorities and focus. The Report's observations and recommendations are, therefore, particularly timely and should aid the Ministry in improving both the economy, efficiency and effectiveness of services provided to British Columbians and the level of accountability to them for the prudent expenditure of public funds.

The Report, while having a direct utility to the Ministry, also serves a broader educational purpose as a public document by clarifying to the reader some of the elements and operations of a large, complex and often poorly-understood system.

The Ministry, along with its counterparts in other provinces and in other countries, has for several years been engaged in an ongoing process of increasing the emphasis placed on the maintenance of good health, the prevention of disease and maintaining access to quality care.

While the appeal of prevention is self-evident, progress toward the rebalancing of the system must be measured because of the limitations of finite health care funding and the inertia inherent to any large, complex system. In a system when predictability and stability are paramount to both the provider and consumer of health care, change must be evolutionary, not revolutionary.

In recent years, the ever increasing demands on the health care system and the inevitable limits on health care funding have prompted the Ministry to carefully define program priorities, to search out innovative solutions and to seek to maximize value for money in expenditure. This last objective is critical as money wasted translates directly into services denied to individuals. In any province's health care system, however, there must be a careful balance of independence and control.

It is fundamental that the Ministry must be accountable to the public for the nearly $4 billion it spends each year. It should be noted, however, that more than 93 percent of the Ministry's expenditures are through grants and contributions to independent contractors, practitioners, agencies and societies. The independence of society operation of hospitals, and other facilities and agencies; the independence of physicians and other health professionals' judgement; and the statutory rights of patients to access care, place certain limits on the Ministry's ability to control expenditures and ensure maximized value for money.

This structural relationship in no way diminishes the responsibility or accountability of the Ministry, instead, it makes the achievement of adequate control more challenging. While it is agreed that "a control function's effectiveness should not be measured by how little it costs to operate, but by how much will be saved for each dollar spent on control" it follows that there are optimal limits for control.

Controls must be selective, unobtrusive and cost-effective. Excessive control represents the wasteful expenditure of funds which would otherwise be spent on health care. Inordinate control also has the potential to reduce the responsibility and initiative of the Ministry's many individual and institutional providers. Clearly, an appropriate balance must be struck. The Ministry will, therefore, seek to improve the sophistication of its management information systems and controls as part of its continuing efforts to achieve the twin goals of higher quality care and greater value for money.

The Ministry appreciates the Report's recognition and commendation of its spending controls on acute care hospitals, the progress which has been made in providing more accessible and integrated services to the elderly and the chronically ill, and efforts made over the last two years to reevaluate its public health services.

Specific comments on the Report's four sections follow:

Continuing Care Division

Overall Conclusion

The Ministry has undertaken to develop a coordinated and comprehensive program of Continuing Care services. The Division believes it is providing reasonable and affordable services while ensuring that appropriate health care is maintained for those individuals most in need. It is recognized that there are opportunities for improvement.

Assessing Peoples' Needs

The Assessors' Orientation and Workload

While recognizing that further training and knowledge will always be an asset, the Ministry feels that assessors do have a reasonable base of knowledge, from their background as nurses or social workers, to permit them to perform their work competently. The Ministry is prepared to examine the effect of workload increases on service delivery, but recognizes that the resourcing of this service is subject to government approvals of budget.

The Assessment Process

The Ministry of Health is pleased that the Auditor General has recognized the value of Continuing Care Division's simple, flexible assessment process which provides a single point of entry to the full range of Continuing Care Division's services. The assessment and case management aspects of the system have been cited by international experts as a major strength, and one which sets British Columbia's program apart from others in Canada and the United States. The Ministry recognizes that, as the population served by the Continuing Care Division changes and the knowledge of care needs of the elderly increases, there will be a continuing need to re-examine this process.

Strengthening the Process

The Ministry is committed to improving the assessment process. It is felt that the assessment tool is comprehensive and provides a useful framework to initiate a review of a client's health, economic and social circumstances, and to identify rehabilitation options including home support services. The Ministry also recognizes that there may be limitations inherent in using this tool to examine complex client cases. Accordingly, a more comprehensive evaluation of the psychological profile of clients will be introduced. The cost effectiveness of requiring an in-depth medical examination for each client must be viewed in the context that only a small segment of clients will have medical problems not already dealt with adequately by their personal physicians. The type of complex cases typically dealt with by Short-Stay Assessment and Treatment Centres remains a very small segment of the total client group.

Payments to Nursing Homes: Value for Money

A Sheltered Market

The Ministry recognizes that there are improvements to be made in the processes for monitoring and funding nursing homes. As the Auditor General notes, the Ministry has set care, safety and other expectations that operators are obliged to meet. These are reflected in the Community Care Facility Act, Adult Care Regulations and the Provider Handbook issued to all operators by the Continuing Care Division. Funding to facilities is based, in part, on Ministry formulas related to staffing guidelines, and the Ministry has introduced global funding, more responsive and proactive funding adjustment mechanisms for changes in occupancy or care levels, and a formula for the funding of incontinent supplies, all of which provide for a more flexible and responsive funding system.

Enforcement Choices

The Ministry of Health agrees with the Auditor General's view that some enforcement difficulties may arise through the absence of appropriate legislation, and, a draft Continuing Care Act is being prepared for government consideration which will address this issue among others. The Ministry does not, however, feel that enforcement mechanisms are lacking. The range of current options include enforcement of health and safety related regulations under the Community Care Facility Act, Ministry-initiated discussion with operators, total or partial freezes on admissions and modifications in funding.

Inspection of Nursing Homes

The introduction of a Quality Assurance Program will complement these enforcement options and augment the inspection process. The intent of Quality Assurance is to work with service providers to improve and sustain a high level of care.

Linking Quality and Funding

The Ministry of Health will carefully examine the recommendation that quality and funding be linked. Incentives for operators to provide an excellent level of service are evident in two essential areas of an expanded funding base and reduced bed needs. When facility operators have approached the Ministry about increasing the number of beds funded by the Ministry, this would not be considered unless an excellent standard of service is evident. Some communities may experience a reduced need for beds due to changing demographics. This acts as an incentive to operators to maintain an excellent service to clients in the face of possibly having beds phased out in their facility. It is the Ministry's mandate to fund operators for the delivery of specific services, consistent with the required and appropriate level of care.

Fulfilling the Philosophy

Refinements to the assessment process provide further information on which to plan alternate strategies for health care intervention. The Ministry recognizes the need to ensure that individuals are not inappropriately placed in facilities. The Continuing Care Division has ceased to admit Personal Care level clients to facilities and is examining cessation of waitlisting for Personal Care 1 clients, who may be best served in the community.

Evaluating Alternatives

The Ministry is interested in exploring opportunities for residents to re-enter the community. However, it must be recognized that the increasing acuity level and complex care needs of today's facility residents may limit their opportunities for community re-entry. The availability of respite beds and their impact on demand for other services such as hospitals is also being reviewed. The reduction in funded homemaker hours per client represents the Ministry's effort to manage a finite resource base while maximizing access to services. Overall the provincial level of utilization has increased. In the last two years funding for homemaker services has increased by twenty-five percent. The Ministry is reviewing a variety of care options to ensure that the best possible environment for clients is provided.

Experiment in Victoria

The Ministry welcomes the Auditor General's recognition of the leadership role which has been taken in exploring alternative methods of community based alternatives to service delivery as exemplified by the Victoria Health Project. The Continuing Care Division recognizes its role in a continuum of care comprising not only its own programs, but programs in Preventive Services, Services to the Handicapped, and in other ministries such as the Ministry of Social Services and Housing.

Older Facilities

The upgrading of facilities "grandfathered" into the program in 1978, whose construction is at variance with current standards, is a recognized part of the Ministry's capital plans, as the Auditor General's report notes. Because of the costs involved, the Ministry has approached this issue in a phased manner and in conjunction with facility expansion and upgrades. In those circumstances where resident safety or quality of care has been shown to be at issue, the Ministry has taken specific action to resolve the situation.

Efficiency of Nursing Homes

Efficiency Standards

The Ministry of Health concurs with the desirability to establish funding firmly on a basis of efficiency standards. In Continuing Care, as in other sectors of the health and social services industry, the specification of output measures is a difficult and often contentious task because of the complex environment of health care service delivery, and the multifaceted and changing needs of client groups.

Connecting Efficiency and Funding

As noted by the Auditor General, the Continuing Care Division has made a start in answering efficiency questions through analysis of staff activities at a number of facilities. The Division intends on continuing this review with a view to developing, in a cost effective manner, measures and monitoring systems which will provide improved funding decisions.

The Nursing Home of the Future

The Ministry accepts the need to re-evaluate the role of nursing homes in the continuum of care. The Continuing Care Division has implemented a number of related initiatives including Adult Day Care Centres, comprehensive home support services, Quick Response Teams and Discharge Support Teams, Family Care and Group Homes, Special Care Units, promoting congregate care home concepts, participating on psychogeriatric steering committees and special research and evaluation projects. The Continuing Care Division is reviewing the staffing requirements for clients with behavioural and mental health problems, such as Alzheimer's patients, and is engaged in reviews of the concept of multi-level care facilities and respite care.

Control and Direction of the Program

The Ministry believes it has made considerable progress in developing a coordinated and comprehensive program of Continuing Care services. As the Auditor General has noted, a new organizational structure addresses past deficiencies in technical support and analytical capacity. Specific recommendations concerning the hiring of a gerontologist, increased health unit clerical staffing, and information systems requirements will be carefully reviewed in connection with the Ministry's budget capabilities.

The need for an advisory committee drawn from the elderly community is recognized. As announced in the recent Throne Speech, a Seniors' Advisory Council reporting to the Minister of Health will be established, with regional representation, involvement of formal and informal caregivers, and participation of interested seniors.

The comments of the Auditor General are timely in view of the Ministry's commitment to mandate refinement and development of a strategic plan for the Continuing Care Division.

Medical Services Commission

Defining Prudent Use

The Commission was pleased that the Auditor General recognized both the importance and the difficulty of ensuring the prudent use of the Plan. The medicare system is an open, honour system; the vast majority of subscribers and health care practitioners demonstrate a real sense of ownership and do use the system wisely and responsibly. Only a very small minority actually abuse the system. In addition, there are others who seem unclear as to what constitutes reasonable service and so may misuse the system from time to time. While no jurisdiction in Canada can guarantee that all the services provided and paid for are truly necessary or useful, this Ministry has taken a number of important and unique steps in this direction which will be outlined below.

Encouraging Prudent Use: MSP Is Not Alone

The Commission noted that the Auditor General recognized the essential role of professional organizations working in partnership with the Commission to encourage prudent use. The British Columbia Medical Association was the first group of doctors in Canada to enter into a voluntary contract which included utilization targets. Members of the Association now have a personal financial stake in defining appropriate patterns of service and care protocols. The Commission has established an excellent working relationship with the Patterns of Practice and Professional Advisory Committees of the BCMA which work in these areas.

Similarly, over the last year the College of Physicians and Surgeons of British Columbia, in cooperation with the BCMA, has instituted an ambitious program of office medical practice assessment to ensure that appropriate standards of medical care are being met.

Responsible Use of Medicare: Subscribers

It is agreed that the Commission has been hesitant to teach subscribers prudent use of medicare, partly because it is very difficult to define what that means for a given individual. The Commission will be embarking on a general campaign to inform as many British Columbia residents as possible as to the types of services beneficiaries are using and the costs associated with them. To assist in this regard, toward the latter part of the 1989/90 fiscal year, point of service statements will be required so that every patient will know what service they have received and what amount is being billed to the Plan.

The Commission is also setting up a Subscriber Pattern of Demand Committee which will function to review patterns of demand by subscribers in much the same way that the Patterns of Practice Committee reviews the profiles of practitioner billings. This group will be able to advise the Commission as to whether patterns of misuse by subscribers are significant enough to need remedying and will be able to individually advise subscribers in respect to the demands they are placing on the system. This initiative should be a good educational tool.

The Commission is pleased that the Auditor General's Report supports the triplicate billing system for certain controlled drugs which the Commission is making available to the College of Physicians and Surgeons and the College of Pharmacists. The Commission is also working with a number of professional groups to develop a new network which will allow a patient to authorize their pharmacist or doctor to access their prescription profile and thereby eliminate any inadvertent prescribing of incompatible medication—this will be particularly useful when multiple physicians are involved in care.

Responsible Use of Medicare: Practitioners

The Auditor General's Report correctly points out that benefits under the Plan may be limited to those which are medically required. The Report goes on to define medically required as meaning that the service must be medically effective, pertinent to the diagnosis and the patient, and competently performed. The Commission disagrees that these are all clearly tests for an item being considered ''medically required'' but does agree that they all have relevance to value.

The Medical Services Plan is undertaking to monitor outcomes against all billed services and will have the first results in fiscal 1990/91. The BCMA has agreed to jointly review the outcomes and draw up guidelines as to the circumstances under which an investigation or treatment maybe effective. Similarly, the College has undertaken that it will review any unusual patterns of outcome for individual practitioners. To the Commission's knowledge, this type of outcome evaluation is not yet done in other jurisdictions.

The Report recognizes the usefulness of guidelines and protocols. It should be noted that protocols with respect to laboratory investigational work have already resulted in the reallocation of substantial funds to the provision of other types of service.

The Commission is also pleased that the Report recognizes the important work that MSP staff do in the edit and adjudication of billings. It should be noted that as of April 1, 1989, a diagnostic code will also be required as part of the billing information, this will help the Commission ensure that the billing is pertinent to the diagnosis and the patient. The adjudication process, which plays a significant role in screening for medical necessity, is being expanded and improved. With respect to confirmations, the Commission is changing its letters, as suggested, and will also be increasing the number of select audits. It should be noted that the Ministry sends out approximately 130,000 confirmations a year, and while the Report is correct that some of this process is flawed because the subscriber addresses obtained through some group plans are inaccurate, the remaining sample is still large. The address problem will be resolved this year.

The Commission noted that the Auditor General's Report supports the activity done through the Patterns of Practice review process. The Commission and the BCMA will be expanding this activity throughout the next few years and will follow-up on the recommendation to communicate more effectively with practitioners. It should be noted that other practitioner groups have, or are in the process of establishing, similar patterns of practice committees.

The Report suggests that the Commission should be doing more with respect to educating practitioners as to their profile, and the expected norms, and this point is well taken. It may be worthwhile to make practitioners aware of their own profile routinely rather than on request. The number of practitioners recommended for corrective action increased in 1987/88 and again in 1988/89. It is doubtful that a practitioner who has to pay back many thousands of dollars would find this action "limited", as suggested by the Report, and it should be noted that interest is required if repayment is overly delayed. The Ministry's legislation is now much stronger and it is expected the whole process will be more timely and effective.

The Commission agrees that the confirmation process for laboratories needed improvement and has instituted a confirmation process with the referring physician similar to the subscriber confirmation system so as to ensure that the tests billed were, in fact, the tests ordered. The Commission is also working to ensure that the standard referral form and the laboratory profiles are in general use in both public and private laboratories.

Salaried and Sessional Services

The Commission agrees that the information currently being collected for these practitioner services is not complete nor comparable to the information received on other billings. During the 1989/90 fiscal year the Commission will be revising its salaried and sessional contracts and looking to acquiring information as to date of service, type of service and patient identification, as with other billings. This will enable the Commission to more accurately evaluate the productivity and effectiveness of these contractual services.

Looking Ahead

The Commission is committed to providing reasonable access to good quality, professional care. One of the best ways to ensure that this objective remains affordable is to eliminate ineffective or unnecessary services.

In cooperation with the professions, the Commission will, over the next fiscal year:

1. *Implement an ongoing education and information sharing program so that both subscribers and practitioners can fully understand their medicare system;*
2. *Improve monitoring capability and patterns of practice screens;*
3. *Develop outcome criteria and monitoring screens for outcomes of care;*
4. *Improve and expand the capability to evaluate the results of increased monitoring;*

5. *Improve the confirmation process, including laboratory referral confirmations;*
6. *Improve the monitoring capability for salaried and sessional services;*
7. *Improve and refine subscriber demand profiles and implement suitable review and educational programs to use this material;*
8. *Develop a pharmacy network which would enable pharmacists to access a prescription profile upon the consent of the patient;*
9. *Increase corrective action as required.*

Hospitals

Overall Conclusion

The Ministry is pleased with the Auditor General's conclusion that procedures are in place that restrain the total cost of the hospital system.

While better information is an evolutionary process, the complexity of health care does not allow for any easy, high level cost effectiveness identification. Nevertheless there are a number of measures in the health care system which provide a reasonable indication as to whether programs are relatively cost effective.

Comparisons With Other Provinces

The Ministry agrees with the Auditor General's statement that comparing health costs between jurisdictions is difficult. However, despite a relatively high wage structure, Figure 1 demonstrates a favourable expenditure level for British Columbia hospitals in comparison with other Canadian jurisdictions.

What Does the Ministry do to Promote Efficiency?

The Ministry is pleased the Auditor General has recognized actions to control the total amount spent on hospitals and the efforts to encourage efficiency. However, Figure 2, while showing an upward trend in costs corrected for inflation and population growth, does not reference the increased costs attributable to significant advances in medicine over the same period. Many of these advances have been in the high technology arena and the public of British Columbia has come to expect high standards and easy access to health care.

Base Operating Costs

The weighted patient day is not the only measure used by the Ministry to group hospitals for comparison and cost per patient is not the only method used to assess hospital performance.

Additional information systems such as Health Statistics Canada, Morbidity Data and Resource Index Weighting through the Health Records Medical Institute (HMRI), population profiles and projections, medical manpower plans, rationalized bed distribution through bed matrices, rationalized technology and the hospital's own internal management systems are all used in reviewing hospital performance. In addition, skilled, professional Ministry staff assess hospital performance based on personal on-site reviews with hospital staff.

Cost of Price or Workload Increases

There is always room for improvement of information and the issue is being addressed. The lead time required for alternative systems to mature to the point of usefulness, however, is a factor not recognized by the report.

Operating Cost of Added Services

The process for approval of new programs includes minutes of all approval decisions, with detailed back up material to itemize the approval level, and these details are kept in files for each hospital. Hospital Programs is presently conducting a program inventory on all hospitals.

Buildings and Major Equipment

When presenting requests for capital equipment, the Ministry looks at the business case and looks for trade-offs in operational costs to promote efficiencies. These efficiencies may be in actual dollars or opportunity dollars for other programs.

In a constrained budget for equipment, direct patient care equipment is the natural priority and this requirement is responsibly discharged by the Ministry. With regard to computer equipment, not all hospitals share the same degree of computer literacy, and to avoid wasteful expenditure on ill prepared computer application requests, the Ministry would normally concentrate on direct patient care benefits.

A new policy is being developed which will encourage greater efficiencies in the hospital industry by providing a mechanism whereby hospitals can use accumulated operating funds for selective capital purposes.

Does the Ministry Know Whether the Hospital System is Cost Effective?

The Auditor General's Report comments a great deal on better information and the Ministry not being assured of the cost effectiveness of the system. The Report does not recognize, however, that the health care industry in the Western world does not have a better system of health information or of judging cost effectiveness than is the case in British Columbia.

The Report also does not address quality of care or flexibility to meet community need. References to cost of services or prices imply exact knowledge of what product is being produced. In fact, the product varies from community to community, from day to day, and from practitioner to practitioner contantly as needs vary, competence levels vary and as medical science advances. It is extremely difficult to accurately cost these deliverables as suggested by the Auditor General.

The Report does not appear to give reasonable attention to the process or environment within which the Ministry attempts to guide a $2 billion industry, with 150 autonomous societies, which is extremely sensitive publicly. It does not seem to acknowledge that much of what is done in medicine or health care is of variable cost effectiveness and always changing.

Cost of Services

The Ministry disagrees with the Auditor General's statement that the Ministry knows little about how much each service costs. Because the staff input is so critical in the delivery of hospital services, Hospital Programs has consciously concentrated on staffing, instead of costs, in much of its data collection and analysis. Thus programs are generally "costed" in terms of their staff input (FTEs) and this information is then converted to dollars using an average cost per FTE. This procedure, and the analysis of performance using average workload per FTE, has the benefit that it is not subject to annual fluctuations due to wage and benefit increases. The implication that the Ministry is using staffing because cost data is not available is not correct. We are able, for example, to compare the direct staffing required for each newborn admission or day, which to those in the industry is more meaningful than average cost figures. In fact, in the new reporting forms, the Ministry is focussing further on both paid and worked hours for more useful information on relative efficiency. As well, hospitals are directly surveyed to obtain "costs" of particular programs, such as CAT scans, for comparative purposes.

Effects of Services

The Ministry disagrees with the statement that information is not regularly used to assess effectiveness. Hospital Programs' medical consultants review the morbidity information as an integral part of an operational review of a hospital. This, in turn, provides an indication of whether the effectiveness and quality of care are appropriate, which together with the on-site analysis, is used in making funding adjustment decisions. These operational reviews are a regular and ongoing aspect of Hospital Programs' activities.

Public Accountability

While the Ministry accepts that more meaningful and understandable information will assist the public's appreciation of the hospital system, it may be difficult to incorporate a level of data that would be acceptable and yet fully understandable.

Coordination

There are mechanisms within the industry for hospitals to think regionally and to integrate their services with other hospitals. There are many examples within the Ministry where this process has taken place—e.g. mobile nuclear medicine services, regional laboratories, and certain clinical services. In addition, the Ministry was a major influence behind the mergers of the Greater Victoria Hospital Society, Fraser-Burrard Hospital Society, University Hospital, and Terraceview.

The Ministry has funded special programs that cross divisions e.g. Hospice and Palliative Care, Home Parenteral Nutrition, Kidney Dialysis, Home Blood Glucose Monitoring, etc. where home support is an integral part of the program and beds are saved. The trade off may not be identified in a purely accounting sense (dollar and bed identification) but it must be remembered that opportunity savings are recognized and the maintenance or slight decline of acute bed ratios per 1000 population reflect this process.

Looking Ahead

The belief that more can and should be done is a mutually agreed objective and the Ministry of Health has a number of initiatives in place which are evolving to meet these particular issues.

The hospital reporting form (HIA 1535) has been revised recently to improve the relevance of information collected and to better capture types of activity and associated workloads of facilities throughout the Province.

As a supplement to using weighted patient days, the Ministry's Medical Consultation Division is reviewing the effectiveness of the resource weighted index used by HMRI (Health Medical Records Institute). The Division is developing indices which measure the severity of illness and, subsequently, the level of resources needed to treat patients.

In addition to reviewing methods of activity comparison, Hospital Programs is considering a revision of peer groupings to account for final cost indices and the role of respective facilities.

In the future, Hospital Programs is also considering funding not on the basis of weighted patient days or resource consumption but on the basis of population demographics and referral patterns. This will recognize the pressures that drive up costs but will not recognize workload increases which are not based on need.

Public Health

Overall Conclusion

The Ministry appreciates the difficulty that the Auditor General had in reviewing Preventive Services in the midst of substantive environmental and program changes. The Ministry agrees with the conclusion by the Auditor General that all services required by statutes and other authorities are being provided, that the process of selecting programs is reasonable and that health unit efficiency is also reasonable. Most of the recommendations to further improve efficiency are already being implemented as a result of the reorganization of the Ministry that was started July 1, 1988. Preventive Services has merged with Community Care Services to create a new Community and Family Health Division. The reorganization has concentrated management resources on the process of managing positive change in public health. For example, during November and December, senior management held meetings with all public health units to seek field input into planned change. An implementation plan is being developed and the reorganization process will be completed over the next three years.

The Public Health Service in British Columbia

The Report recognizes the unique nature of Public Health and the enormous challenge provided by a complex environment, but does not fully recognize that public health services are also provided by other programs in the Ministry of Health, other Ministries and countless community agencies. Achieving consensus with all relevant parties is difficult but is progressing as attitudes and knowledge improve within these varied jurisdictions.

Organization

While the Report correctly cites that less than 2 percent of the Ministry's budget is devoted to the Preventive Services Division it should be noted that this figure does not accurately reflect total spending on prevention services, nor does it portray the priority given to disease prevention and health promotion by the Ministry. Preventive activities are carried out throughout the system, by physicians in their offices through diagnosis and counselling, in the hospital's diabetic day care units where monitoring prevents hospitalization, and through home care for the elderly which promotes seniors' physical and mental health. A good example of the Ministry's emphasis in this area is the recent announcement of the Ministry's intention to establish an Office of Health Promotion, which will enhance the process of coordinating health promotion in all Ministry of Health programs.

Complying With Authorities

The Ministry appreciates the support given by the Report to Ministry initiatives to review programs, develop outcome standards, balance programs and resources, and to move public health into new areas. These initiatives are already helping to relieve some of the problems noted by the Auditor General that were the consequence of staff shortages.

Choosing the Right Programs

New Directions for Public Health

The Report supports the Ministry's approach in carrying out its review and redefinition of priorities, organization and methods during a period which has challenged all public health jurisdictions in North America. The Ministry disagrees however, with the Auditor General's conclusion that this action was somewhat belated. Of interest, the Ministry was the first jurisdiction in Canada to begin this process and its initial work has been praised as an innovative model for others to follow.

Managing Change

As already noted, recent restructuring has confirmed the Ministry's commitment to dedicate necessary resources to managing change.

Operating Efficiently

Doing the Job Right

The Ministry agrees that its strength is the result of an emphasis on carefully selected, competent and dedicated staff.

Improving Efficiency

Improved salaries, an innovative bursary program, increased funding of professional development and enhancement of career opportunities with innovative programs, such as the Temporary Assignment Project program and the proposed Diploma in Health Care Management, are some of the strategies the Ministry is taking to reduce staff vacancies and strengthen management.

Recent restructuring has placed a priority on improved management systems, training and communication between head office and health units. New regional and program structures will move head office staff and decision making closer to field staff.

Organization Innovation

The Ministry appreciates the Auditor General's support of its efforts to improve the efficiency of the health units through innovation. The Ministry is also continuing to explore other innovative models such as those discussed in the Report. This complex area requires investigating a variety of strategies and evaluating their short and long range implications.

Reporting to the Public

The Ministry is currently reallocating resources to accelerate development of the management information systems necessary to improve its information reporting ability.

Follow-up of Previous Years' Value-for-Money Audits

At the conclusion of each value-for-money audit, we provide those responsible for managing the program or function audited with an opportunity to respond to our audit reports. These responses are published in our Annual Report, along with our audit assessments.

This year, for the first time, we have expanded this process. We invited ministries that were the subject of value-for-money audits last year to provide the current status of any matters that were unresolved when they initially responded to our audit.

Due to the nature of value-for-money audits and the matters raised during them, we usually only follow up on these audits when the next audit of the area is undertaken. Also, it takes time to implement the recommendations that arise from value-for-money audits. Therefore, when ministries initially respond to our reports just after the audits have been completed, they frequently are only able to indicate their intentions to resolve the matters raised by our audits, rather than their actions to do so. Without further information, legislators and the public are not aware of the nature, extent and results of managements' remedial actions. Therefore we felt it would be useful to obtain and publish updates of managements' responses to our previous value-for-money audits.

The following written comments were received in reply to our invitation to publish further updates from the ministries that were the subject of value-for-money audits last year.

Follow-up from Ministry of Education

In March of 1987 the Office of the Auditor General selected the Ministry of Education for a comprehensive audit. The Sullivan Royal Commission on Education was also established by the Government in March of 1987.

The Commission's task was to examine all aspects of the public and independent school system, and to make recommendations that would guide the system into the 21st century.

The Commission's report, ''A Legacy for Learners'', was released in August 1988, approximately four months after the result of the Auditor General's comprehensive audit was published. The report contains 83 recommendations dealing with curriculum, teacher supply and qualifications, system governance, and education finance. The recommendations essentially suggested major policy changes that affect each of the four areas reviewed by the Office of the Auditor General, which were curriculum, special education, facilities and finance.

In accepting the Commission's report, Government committed itself to a thorough review of the recommendations, involving extensive consultation with the major education professional organizations, as well as with community organizations.

After an extensive consultation and review process, the following new policy directions for education have been established by Government. We are confident that the final implementation details, which are being developed over the coming months, will concurrently address most of the issues raised in the comprehensive audit.

Policy Directions

1. *A mandate for the school system has been developed.*
2. *An Education Advisory Council will be appointed.*
3. *The Government will prepare a new School Act.*
4. *A new provincial curriculum structure, from the first year of the primary program to Grade 12, will be developed.*
5. *With the new provincial curriculum, the first four years of school will consist of an ungraded primary program.*
6. *The curriculum for Grades 4-10 will be organized on the basis of a sequenced set of learning activities leading to gradually higher levels of knowledge, skills and attitudes.*
7. *New programs at the Grade 11-12 level will provide a choice of pathways leading to graduation.*
8. *The regular Grade 12 provincial examination system will be expanded, and student performance on Grade 12 scholarship examinations will be given greater recognition.*
9. *There will be increased emphasis on regular assessment of student performance and evaluation of program effectiveness.*
10. *Accountability and reporting procedures at all levels of the system will be improved.*

11. *The teaching profession is recognized as being fundamental to the operation of a quality school system.*
12. *Existing teacher education programs will be expanded, and new programs to increase the supply of teachers in rural areas will be implemented.*
13. *The College of Teachers will be asked to review the qualifications required for admission to the teaching profession and for continuing certification.*
14. *Some independent schools will receive increased support.*
15. *Home Schooling is recognized.*
16. *Increased support will be given to Indian education.*
17. *The system of separate school districts will continue, and greater involvement of parents at the school and district levels will be encouraged.*
18. *Government is committed to ensuring that services to children, including children with special needs, are delivered in an efficient and coordinated manner.*
19. *The principle of gender equity will be reinforced throughout the curriculum and schools.*
20. *The multicultural nature of British Columbia society will be recognized through education policy and programs.*
21. *Government will undertake a complete review of the funding system for education in the province.*
22. *Government will implement a major capital funding program for the school system.*
23. *Government is committed to the principle of fair and equitable taxation for financing the school system.*

Part III: Other Matters of Interest

Part III: Other Matters of Interest

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Other Matters of Interest

Each year, in addition to our audits of financial statements and our value-for-money audits, and as time and resources permit, we undertake specific projects dealing with matters we believe will be of interest to Members of the Legislative Assembly.

In 1988 we undertook three such projects. In the first one, we examined the way in which the Legislative Assembly establishes control over government spending. Our second project was a review of recent initiatives in the Ministry of Transportation and Highways with respect to the planning, controlling and reporting of major highway construction projects. In the third project, we revisited previous years' concerns about the Government's leave management system.

The results of the three projects are contained in this part of our Report.

Control of the Public Purse by the Legislative Assembly

The Provincial Government spent over $10 billion in the 1988 fiscal year, almost $3,400 for each man, woman, and child in British Columbia. How does the Legislative Assembly control this expenditure? How effective is this control? Does the Government provide enough appropriate information to the Legislative Assembly about its spending plans? These are some of the questions addressed in this audit.

Audit Purpose and Scope

We conducted our audit to determine whether the legislation governing spending, and the spending information provided by the Government to the Legislative Assembly, give the Assembly a basis for effective control over government expenditures. We defined government expenditure to be expenditure from the Consolidated Revenue Fund, which represents all of the Government's centrally operated financial activities. Therefore, references to the public purse in this report are in respect of the Consolidated Revenue Fund. We did not examine control and accountability for Crown corporations and other public agencies and commissions. Neither did we look at the budget-building process within ministries, or at how the Legislative Assembly deals with the information by way of debate. Our audit focused on the *1988/89 Estimates.*

Overall Conclusion

The financial legislation of the Province requires all expenditure from the Consolidated Revenue Fund—except for special warrants—to be approved in advance by the Legislative Assembly. Therefore, it provides the Assembly with a foundation for establishing control of the public purse. However, the foundation could be strengthened if the Government provided timely and suitable disclosure of transfers of funds between sub-votes and more information about the need for, and the nature of, special warrants.

The quality of the spending information is equally important to the Legislative Assembly's ability to exercise control. We found that the information in the Estimates adequately shows the amount of money the Government can spend, and adequately describes the activities to be performed and the services to be provided. However, we believe that additional details are needed about the estimated expenditures, objectives, and expected results of individual programs to give the Legislative Assembly a good understanding of government programs, and to establish a satisfactory basis for subsequent accountability.

Overall we concluded that, although many of the key elements of control are present, the basis for the Legislative Assembly's control over the public purse is not as effective as it could, and should, be.

Background

Parliamentary Supremacy and Control of the Public Purse

The Legislative Assembly is politically supreme, but it does not govern directly. This is done by the Executive Council (the Cabinet). The Cabinet is made up of ministers selected usually from members of the political party holding the majority of seats in the Legislative Assembly. It is the Cabinet and the public service that develop and administer policies and programs. However, the party in power—the Government—retains authority to govern only if it maintains the confidence of the Legislative Assembly. One of the primary means the Assembly has of withdrawing its confidence is by refusing to approve funding for government operations.

The Government publishes its expenditure Estimates at the same time the Minister of Finance and Corporate Relations delivers his annual budget speech. The Estimates describe the Government's spending intentions for each vote (so called because the expenditure is segregated into packages, or votes, that the Legislative Assembly debates and then votes approval for). The limits of the amounts that may be spent are specified and the purposes for which the expenditure will be made are stated in general terms. The Estimates also contain expenditure details and narrative descriptions for each vote. The Supplement to the Estimates provides further details on the type of expenditure.

The legal spending authority for government expenditure is provided through the *Supply Act*. There can be several interim Supply Acts each year. A final Supply Act is passed when all votes have been approved by the Committee of Supply, on which all Members of the Legislative Assembly (MLAs) sit. By tradition, the bulk of the Government's annual expenditures are authorized in this way. However, the Legislative Assembly could vote supplementary supply at any time it is in session. This form of supply has not been used in British Columbia.

Despite the limits set by the *Supply Act*, the legislative framework does offer some flexibility. Continuing expenditure authority is provided in certain Acts to cover special circumstances and programs, such as fire suppression. Also, when the Legislative Assembly is not in session, the Government may use special warrants to authorize additional expenditures which it considers to be urgently and immediately required for the public good.

In British Columbia, as in other provinces, the Legislative Assembly has limited alternatives when dealing with the Estimates. The Assembly cannot increase the amount of any vote nor can it introduce new votes. It can only reject, reduce, or approve the votes as presented to it. Since the party in power usually holds the majority of seats, it is unlikely that the Legislative Assembly would reject or reduce expenditure proposals. How, then, is it possible for the Assembly to have effective control over the public purse?

Achieving Effective Control

We believe that the Legislative Assembly can achieve effective control by combining the initial scrutiny and approval of expenditures with a good accountability process.

Through the expenditure approval process, the Government enters into an implicit contract with the Legislative Assembly to answer for its use of funds. It is this fundamental requirement of the Government to answer—to be accountable—that provides the opportunity for effective control.

A good accountability process requires the right information at the start of the cycle, both to support expenditure approval, and to establish a basis for subsequent accountability reporting by the Government. The information provided about the proposed expenditure should not only identify the limits and the minister responsible, but also tell in a meaningful way what the expenditure is for.

We believe that the Legislative Assembly has the opportunity to hold the Government fully accountable, if both the initial information and the subsequent reporting are adequate (see Figure 3.1). This, in turn, gives the Assembly the opportunity to have effective control of the public purse through parliamentary activities such as the Estimates debates, Question Period, and the Public Accounts Committee.

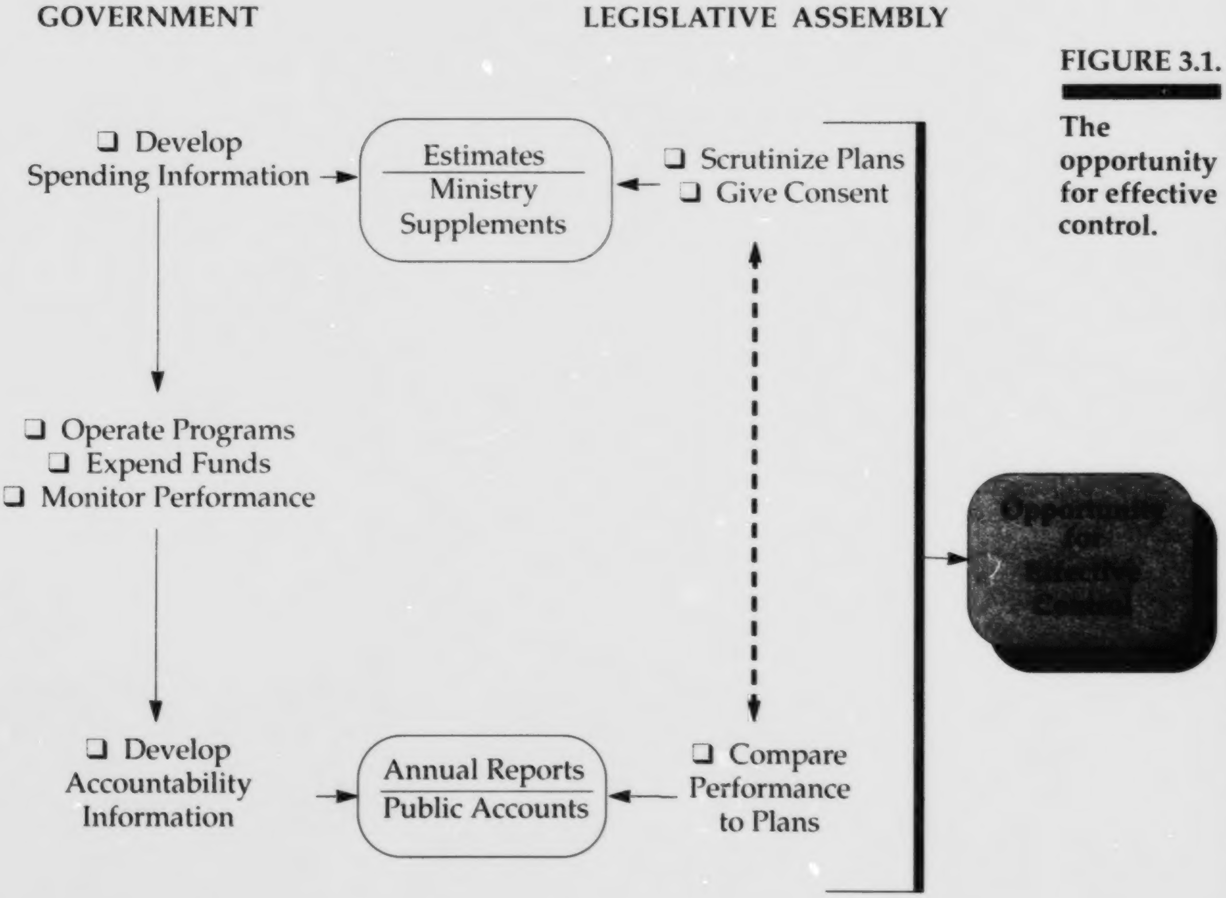

GOVERNMENT
LEGISLATIVE ASSEMBLY
❑ Develop Spending Information
Estimates
Ministry Supplements
❑ Scrutinize Plans
❑ Give Consent
❑ Operate Programs
❑ Expend Funds
❑ Monitor Performance
Opportunity for Effective Control
❑ Develop Accountability Information
Annual Reports
Public Accounts
❑ Compare Performance to Plans

FIGURE 3.1.

The opportunity for effective control.

Legislative Framework

We found that the legislative framework is comprehensive and requires all government spending to have some form of legislative authority. It does, therefore, provide the Legislative Assembly with a foundation for establishing control of the public purse. However, the foundation could be strengthened if the Government provided timely and suitable disclosure of transfers of funds between sub-votes and more information about the need for, and the nature of, special warrants.

In British Columbia, the *Financial Administration Act* provides the legislative framework for granting the Government authority to spend taxpayers' money. The Act confers to Treasury Board, a committee of the Cabinet, the responsibility for accounting policies and practices. This includes the form and content of the Estimates. The Act also creates a Consolidated Revenue Fund. All public money must be paid into the Fund; no money can be paid out of it without an appropriation.

The Legislative Assembly has two main ways it can authorize the Government to spend from the Consolidated Revenue Fund: annual appropriations and statutory appropriations. If the Government needs additional funding during the year, it has a number of choices. It can use the contingencies vote (part of the annual appropriation), it can request the Assembly to authorize supplementary supply, or it can issue a special warrant. Figure 3.2 shows how spending in recent years has been distributed over the different types of appropriations.

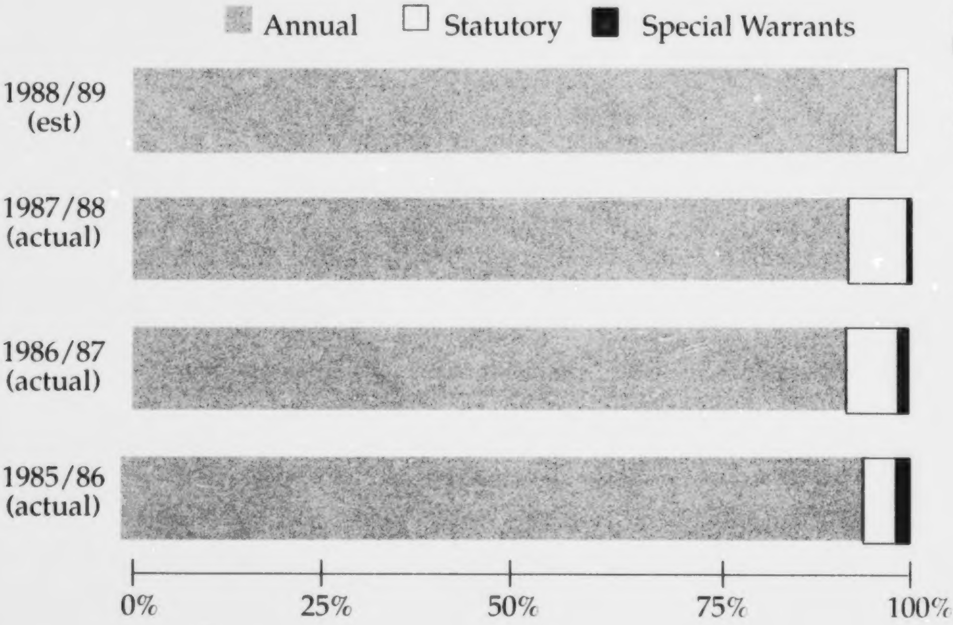


FIGURE 3.2.

Spending by appropriation.

Annual Appropriations

Most government spending is approved annually by the *Supply Act*. This Act provides the Government with funds for one year, on the basis set out in the Estimates. For the 1989 fiscal year, 98.2% ($11.6 billion) of the Government's estimated expenditure from the Consolidated Revenue Fund was approved this way.

According to the *Financial Administration Act*, Legislative Assembly approval is being given at the vote level. The 11 MLAs we interviewed as part of the audit recognized that if the Legislative Assembly gave approval at the sub-vote level, the Government would have less flexibility in altering priorities to meet changing circumstances during the year. Nevertheless, most of the Members felt the sub-vote level information was an integral part of what they were approving.

Votes, Sub-votes, Sub-Sub-Votes, and Programs

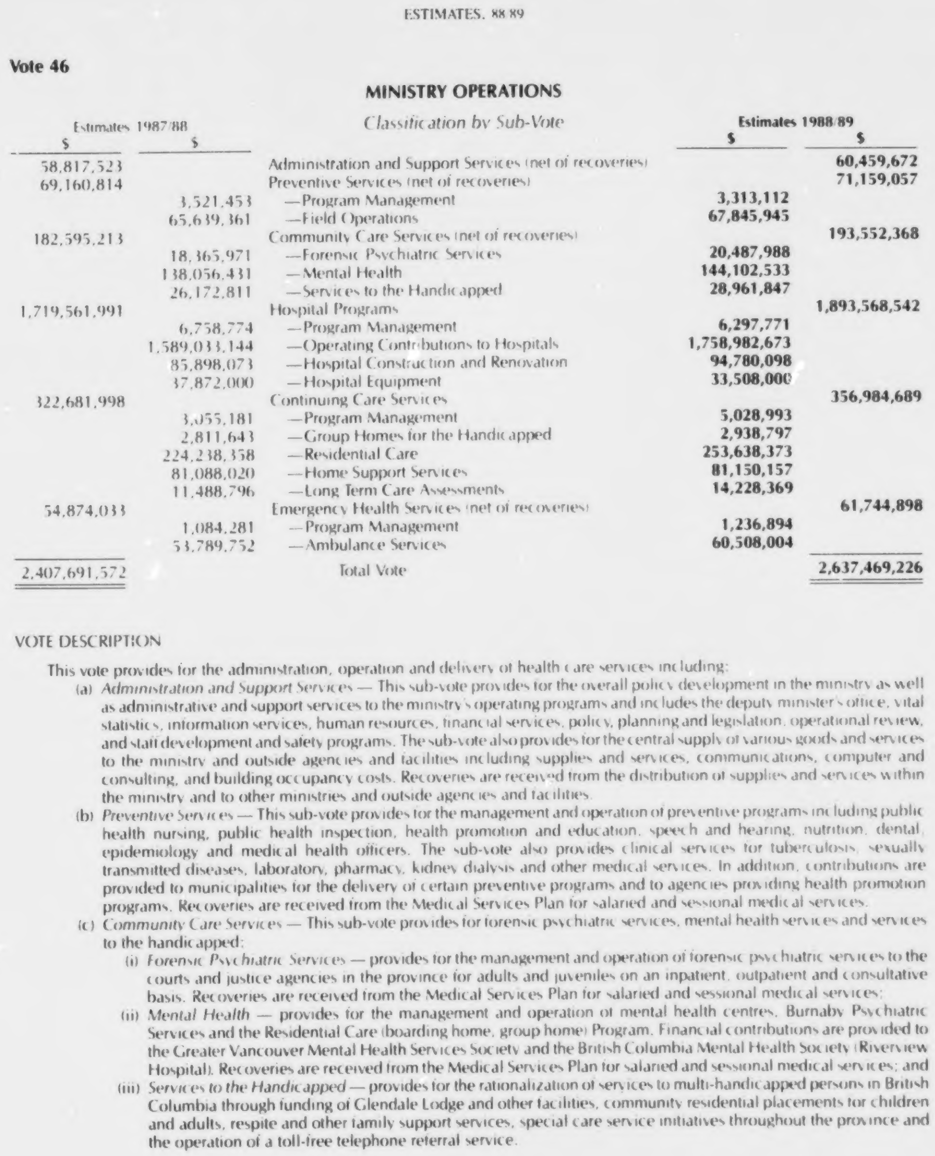
Votes are the basis on which the Legislative Assembly seeks to control expenditures. A vote may represent a single government program, but usually represents a grouping of many interrelated programs. Most votes are divided into sub-votes.

Sub-votes may also represent one program within a ministry, but more often are groupings of several interrelated programs. In the larger votes, sub-votes may be further broken down into sub-sub-votes.

Sub-sub-votes usually represent a grouping of a number of individual programs, but may be an individual program.

Programs may be defined in several ways. Treasury Board's *Financial Administration Operating Policy Manual* describes a program as a major ministerial operation designed to achieve specific objectives as authorized by the Legislative Assembly. To the public, a program is the government activity under which they receive a benefit, service, or grant, or through which they do business with the government. We believe that a reasonable definition of a program would be one that meets all the following criteria:

- provides a benefit to one type of recipient, beneficiary, or client group;
- may be related to a quantifiable output measure which reflects what the program has been designed to achieve; and
- has its own specific objective.



ESTIMATES, 88/89

Vote 46

MINISTRY OPERATIONS

Classification by Sub-Vote

Estimates 1987/88			Estimates 1988/89	
$	$		$	$
58,817,523		Administration and Support Services (net of recoveries)		**60,459,672**
69,160,814		Preventive Services (net of recoveries)		**71,159,057**
	3,521,453	—Program Management	**3,313,112**	
	65,639,361	—Field Operations	**67,845,945**	
182,595,213		Community Care Services (net of recoveries)		**193,552,368**
	18,365,971	—Forensic Psychiatric Services	**20,487,988**	
	138,056,431	—Mental Health	**144,102,533**	
	26,172,811	—Services to the Handicapped	**28,961,847**	
1,719,561,991		Hospital Programs		**1,893,568,542**
	6,758,774	—Program Management	**6,297,771**	
	1,589,033,144	—Operating Contributions to Hospitals	**1,758,982,673**	
	85,898,073	—Hospital Construction and Renovation	**94,780,098**	
	37,872,000	—Hospital Equipment	**33,508,000**	
322,681,998		Continuing Care Services		**356,984,689**
	3,055,181	—Program Management	**5,028,993**	
	2,811,643	—Group Homes for the Handicapped	**2,938,797**	
	224,238,358	—Residential Care	**253,638,373**	
	81,088,020	—Home Support Services	**81,150,157**	
	11,488,796	—Long Term Care Assessments	**14,228,369**	
54,874,033		Emergency Health Services (net of recoveries)		**61,744,898**
	1,084,281	—Program Management	**1,236,894**	
	53,789,752	—Ambulance Services	**60,508,004**	
2,407,691,572		Total Vote		**2,637,469,226**

VOTE DESCRIPTION

This vote provides for the administration, operation and delivery of health care services including:

(a) *Administration and Support Services* — This sub-vote provides for the overall policy development in the ministry as well as administrative and support services to the ministry's operating programs and includes the deputy minister's office, vital statistics, information services, human resources, financial services, policy, planning and legislation, operational review, and staff development and safety programs. The sub-vote also provides for the central supply of various goods and services to the ministry and outside agencies and facilities including supplies and services, communications, computer and consulting, and building occupancy costs. Recoveries are received from the distribution of supplies and services within the ministry and to other ministries and outside agencies and facilities.

(b) *Preventive Services* — This sub-vote provides for the management and operation of preventive programs including public health nursing, public health inspection, health promotion and education, speech and hearing, nutrition, dental, epidemiology and medical health officers. The sub-vote also provides clinical services for tuberculosis, sexually transmitted diseases, laboratory, pharmacy, kidney dialysis and other medical services. In addition, contributions are provided to municipalities for the delivery of certain preventive programs and to agencies providing health promotion programs. Recoveries are received from the Medical Services Plan for salaried and sessional medical services.

(c) *Community Care Services* — This sub-vote provides for forensic psychiatric services, mental health services and services to the handicapped:

  (i) *Forensic Psychiatric Services* — provides for the management and operation of forensic psychiatric services to the courts and justice agencies in the province for adults and juveniles on an inpatient, outpatient and consultative basis. Recoveries are received from the Medical Services Plan for salaried and sessional medical services;

  (ii) *Mental Health* — provides for the management and operation of mental health centres, Burnaby Psychiatric Services and the Residential Care (boarding home, group home) Program. Financial contributions are provided to the Greater Vancouver Mental Health Services Society and the British Columbia Mental Health Society (Riverview Hospital). Recoveries are received from the Medical Services Plan for salaried and sessional medical services; and

  (iii) *Services to the Handicapped* — provides for the rationalization of services to multi-handicapped persons in British Columbia through funding of Glendale Lodge and other facilities, community residential placements for children and adults, respite and other family support services, special care service initiatives throughout the province and the operation of a toll-free telephone referral service.

This extract from the *1988/89 Estimates* is for illustrative purposes only and does not include the complete vote description.

Transfers Between Sub-Votes

Each vote represents a unit of legislative control, and each one provides a certain basis for accountability because the Legislative Assembly must approve its purpose and its spending limit. Before the 1983 fiscal year, the Estimates contained over 200 votes. Treasury Board changed the vote structure in the *1982/83 Estimates,* and the number of votes declined to 87. In comparing the vote structure and information before and after the change, we found that the descriptions were maintained or even improved, but that the detail of estimated expenditure information was reduced.

The smaller number of votes has given the Government and its managers increased flexibility to alter spending priorities. They are able to transfer funds between sub-votes within the same vote, without the Legislative Assembly's approval. These transfers require the approval of the Secretary to Treasury Board. They take place throughout the year, although the majority occur around year-end when the pressure is greatest to ensure sub-votes are not overspent. In the 1988 fiscal year, there were more than 200 such transfers. Usually, the amounts were relatively small, but occasionally they were notably large. For example, in the Ministry of Transportation and Highways, one transfer between sub-votes involved $13.3 million.

All the MLAs interviewed agreed that the Government should have reasonable latitude to react to changing circumstances. However, several expressed some concern about the Government having the power to make what could be significant changes to the expenditure plan approved by the Legislative Assembly, without further reference to the Assembly. The Members acknowledged that the *Financial Administration Act* does not require the Legislative Assembly to approve transfers between sub-votes.

The first public disclosure of sub-vote transfers comes when the Government's financial statements are published. In recent years, this has been toward the end of the next fiscal year. The Members said improved information would remove most of their concern. They felt there should be a mechanism for keeping the Assembly informed on a timely basis of the more significant transfers. We believe that such a mechanism should be introduced. For example, relevant information could be published in the British Columbia Gazette or in the Government's quarterly financial statements.

Statutory Appropriations

In addition to the annual approval provided by the *Supply Act,* some expenditures have continuing expenditure authority. These are called statutory appropriations. Such authority is provided in the *Financial Administration Act* and in several other Acts.

The Government may use statutory appropriations in three ways: to supplement expenditure authorized in votes; to provide authority for expenditures from special accounts; or to provide direct authorization for certain other expenditures out of the Consolidated Revenue Fund.

Statutory Appropriations to Supplement Votes

For some expenditures, estimates are included in votes even though the expenditure already has continuing statutory authority. If required spending exceeds the amount voted by the Legislative Assembly, then the statutory appropriation is used. For example, in the 1988 fiscal year, Vote 41, which provides funding for the Medical Services Commission, allowed expenditure of $540 million. Actual expenditure for the year was $564 million. The additional $24 million was a statutory appropriation, authorized by the *Medical Services Commission Act*. In the 1988 fiscal year, the Government spent a total of $36.2 million using statutory appropriations to supplement voted appropriations.

We agree that including estimated expenditures in voted appropriations, and thus making them subject to annual approval, is preferable to relying on statutory appropriations. However, because a statutory authority can override the spending limits shown, there is potential for confusion. The first time an MLA or the public may become aware of a statutory authority being used to supplement a vote is when the Government's preliminary financial statements are published. We feel that the Estimates should clearly identify those items in the votes that also have continuing statutory authorization.

Special Accounts

Some statutory appropriations have been designated as special accounts. The Government often uses these accounts to highlight expenditures (such as joint federal/provincial programs) which have specific limits on amounts or timing, and which may span several years. The expenditures are mostly funded through transfers from votes, through federal funding, or through revenue raised for the account.

The Estimates include details on spending from special accounts, but only for information purposes—the amounts do not need annual legislative approval. In the *1988/89 Estimates*, approximately $210 million was estimated to be spent from special accounts.

We believe that as long as the Estimates include adequate information about planned expenditure from special accounts, and the actual expenditure is subsequently accounted for on a timely basis, then there is no reduction in legislative control.

Other Statutory Appropriations

A number of statutory appropriations are not included in either a vote or a special account. Thus, they are not reflected anywhere in the Estimates. The first public information about their use is when the Government's preliminary financial statements are published. As a result, the Legislative Assembly does not have the opportunity to scrutinize the proposed expenditures.

In the three years ended March 31, 1988, the average total annual expenditure for appropriations falling into this category was $56 million. Many of these expenditures occur every year and could be estimated. For example, in that same period, an average of $1.5 million per year was spent on flood relief. We believe the Government should, where possible, estimate the expenditures that will be required for those recurring expenditures now authorized by statutory appropriations. The estimates should be included in regular voted appropriations. For the others, we believe it would be useful if the Estimates included a schedule explaining their existence and showing details of their use over a period of, say, three years.

Periodic Reviews of Statutory Appropriations

A 1979 report of a federal Royal Commission on Financial Management and Accountability recommended that legislation containing ongoing expenditure authorization require an automatic funding lapse at the end of the fifth year following introduction. This type of provision is known as a "sunset clause." Some of the recent legislation in British Columbia has contained clauses limiting the amount of expenditure or limiting the period of time during which expenditure can be made—a trend we encourage and one that was favored by most of the MLAs we interviewed.

A 1980 Ministry of Finance Discussion Paper, which introduced the then proposed, new Financial Administration Act, stated that standing statutory appropriations were considered to be "blank cheques." The Discussion Paper suggested that statutory appropriations be analyzed to determine if they were still essential. We believe that the Legislative Assembly should have the opportunity to review on a regular basis (for example, every five years) those standing statutory appropriations not subject to specific monetary or time limits.

Additional Funding

The need for additional funds usually arises toward the end of the fiscal year, when it becomes apparent that the amount in the Estimates is not enough in certain votes. In this situation, the Government has a number of alternatives.

Contingencies Vote

The Government may be able to draw on the contingencies vote. This vote is a part of the annual appropriation. It provides for additional expenditure where the expenditure depends on contingent events or was not anticipated. In the 1989 fiscal year, the vote was for $50 million. The Members we interviewed supported the need for a contingencies vote. However, when the Legislative Assembly approves this vote, it is approving the concept and total expenditure limit only. Information about how the Government used the vote may not become public until the Government's financial statements are issued. We believe that MLAs and the public should be informed on a timely basis of any significant expenditures charged to the contingencies vote. The British Columbia Gazette and the Government's quarterly financial statements are potential vehicles for such disclosure.

Supplementary Supply and Special Warrants

There are instances when the Government decides additional expenditure authorization is necessary, but the contingencies vote has been spent. At other times, the Government may wish to introduce a new program not covered by existing appropriations. In both such cases, the Government then has to choose between using a special warrant and requesting supplementary supply.

The *Financial Administration Act* allows special warrants to be used if, when the Legislative Assembly is not sitting, a matter arises for which expenditures were not foreseen or sufficiently provided for in the Estimates, but are urgently and immediately required for the public good. In this situation, the Lieutenant Governor, on the advice of the Cabinet, can authorize payment without the specific prior approval of the Legislative Assembly, by issuing a special warrant.

The MLAs interviewed agreed with the need for an instrument such as a special warrant. However, several Members expressed concern that, for some special warrants, the reason the expenditures are "urgently and immediately required" for the public good is not apparent.

Several MLAs indicated they need more information at the time a special warrant is issued. The legal document (the Order-in-Council) authorizing each special warrant shows the total expenditure and states that the expenditure is urgently and immediately required for the public good. We believe any government has the authority to determine how it interprets "urgently and immediately required." However, we also think each warrant should explain why the additional expenditure was urgently needed and not just reiterate the standard phrase. Also, we believe that where the special warrant is supplementing an existing vote, sufficient information should be provided to enable the special warrant approval to be related back to the original Estimate.

Orders-in-Council authorizing special warrants do provide timely public notice of the expenditures. This can result in the expenditures receiving a lot of attention through public debate in the media—perhaps more attention than if these same amounts had been included in the votes. Furthermore, they provide the opportunity for Members to raise the topic during Question Period when the House resumes sitting. For example, Special Warrant 2 in the 1988 fiscal year provided $8 million for the operation, administration, and expenses of the portfolios of eight Ministers of State. It received much media attention and generated a number of questions in the House.

In supplementary supply, additional Estimates are presented to the Legislative Assembly for approval. It therefore requires the expenditure to be deferred until the House is recalled. Supplementary supply has not been used in British Columbia. However, a New Programs vote was introduced in the *1988/89 Estimates*. This vote requested funding for new initiatives for a variety of economic, health, and social purposes, but provided no detailed expenditure breakdown. Although the vote alerted the Legislative Assembly that these new programs were being developed, the fact that funds were requested before the spending plans had been finalized concerned some MLAs. We believe that a better alternative in this situation would be to wait until the details are final and then request supplementary supply.

In 1981, a provincial Task Force on the proposed *Financial Administration Act* recommended "the government initiate the practice of using supplementary estimates for introduction of new programs, provision for unforeseen items and supplementation of existing appropriations." We agree with this recommendation because supplementary supply is consistent with the principle that parliamentary debate should occur before an expenditure is made. The Task Force concluded, "This would eliminate the present routine use of special warrants for expenditures which cannot be truly described as 'urgently and immediately required for the public good,' and would thus reserve this instrument for unforeseen emergencies."

Spending Information

We found that the Estimates give the total estimated expenditure for each vote, and describe the activities to be performed and the services to be provided. However, in many cases, they do not adequately explain why the expenditure is to be made. The Estimates have not been designed to show what the Government intends to achieve with its various programs. As the Report of the Commissioner Inquiry into the Coquihalla and Related Highway Projects stated, "Estimates of annual expenditure are not related in any objective manner to expected accomplishment." If the Legislative Assembly is to exact accountability from the Government, it must first establish a base for so doing. This requires a more detailed description of what the programs are, what their objectives are, how the objectives are to be achieved, what the expenditures are estimated to be, and how program results are to be measured.

The Members all said the Estimates contain much useful information, although most also said there was not enough detail to meet their needs in certain areas. A few thought that the Estimates should only include general information, with additional information being accessible on request. Of the Members who wanted more, many were concerned that to add much information to the Estimates or the Supplement would make them difficult to use. Therefore, a balance must be struck between keeping the Estimates relatively concise and uncluttered, and adding more useful information.

We believe it would be counter-productive to expand the content of the Estimates. The document would become too large and difficult to use. Instead, we believe the Government should move toward producing a separate supplement for each ministry. The supplements could contain much of the additional information we believe to be necessary.

The MLAs we interviewed have different approaches to reviewing the Estimates. This results in differences in the type and level of information they require. They need information for broad understanding of the Government's expenditure plan and they need some perspective on how each vote fits into the plan. For expenditures funded by votes, they need to know the monetary limits and purposes for each vote and they need to have detailed information at the program level. As well, they want to know what significant changes have occurred from the previous year, and why the changes occurred.

Information for Broad Understanding

We found that the Estimates, the budget document, and other related documents contain overview information that is useful in providing a general understanding of the Government's annual expenditure plan. Still, we believe that the MLAs and the public would benefit by having additional information as described below.

The Government's Fiscal Plan

The Government discloses its fiscal plan for the Estimates year only. We believe that if it disclosed its medium-term fiscal strategy for a period of, say, three to five years, debate over the Estimates would reflect a greater understanding of government plans than occurs in response to a one-year statement. Such disclosure should show the Government's fiscal objectives, and the benchmarks it intends to use to measure performance along the way. A number of other provinces are either presenting such information or have said they will soon do so.

Tax Expenditures

Tax expenditures, including tax exemptions, deductions from taxes payable, and preferential tax rates, are an indirect method of furthering economic or social objectives of government. They differ from normal government expenditures in that they are deducted by the beneficiaries from taxes or royalties that would otherwise be payable to the Province, rather than being paid direct to the beneficiaries.

The opportunity to debate the desirability or achievements of tax expenditures is reduced because they are not subject to annual legislative scrutiny, except where legislation is introduced or legislative amendments are made. The "Background Papers to the 1981 Budget" stated, "In recent years tax expenditures have come to represent a substantial commitment of government financial resources and should therefore be reviewed with expenditure estimates in assessing the direction and magnitude of the province's fiscal policy." A supporting table showed that estimated tax expenditures for that year totalled $2.9 billion, compared to a budgetary revenue of $6.6 billion. Similar information was published in 1982, but since then budget documents have not included disclosure of tax expenditures.

Some of the MLAs we interviewed felt that tax expenditures should be shown in the Estimates. Several, however, raised doubts about how accurate such information would be. We recognize that a major deterrent to showing tax expenditures is the difficulty of estimating their true cost. Nevertheless, we believe information on the extent of tax expenditures would help readers in reviewing the Government's overall expenditure plan.

A schedule of beneficiaries and the benefits provided to them, similar to the schedule provided in 1981 and 1982, should be provided on a regular basis. Also, the effect that the tax expenditures are having on the target groups should be described, as support for their continuing need.

Government Initiatives and Cross-Ministry Programs

From time to time, the Government embarks on a major, high-profile initiative. Examples include Expo 86, the North-East Coal project, privatization, and regionalization. Similar to these initiatives are programs that are delivered by several different ministries. An example is the Economic and Regional Development Agreement (ERDA), a 10-year agreement between British Columbia and Canada, which "provides a framework for closer economic cooperation and coordination with the federal government by means of specific sub-agreements." For the 1989 fiscal year, the Estimates show there were eight subsidiary agreements to be delivered through five ministries, with funding provided both through votes and special accounts.

Most of the MLAs we interviewed said they needed overview information for these types of expenditures. They found it difficult to assess the Government's performance on such major issues unless the related costs were clearly identified and accumulated. We noted that the *1985/86* and *1986/87 Estimates* included information schedules for the Government's economic renewal program which, incidentally, included ERDA expenditures. We believe it would be useful to Members if government initiatives and cross-ministry programs were summarized at the front of the Estimates.

Consolidated Revenue Fund Deficit

The Consolidated Revenue Fund consists of the General Fund and the Special Funds (currently the Budget Stabilization Fund and the Privatization Benefits Fund). In a presentation change in the *1988/89 Estimates,* the General Fund was used as the main reporting vehicle, rather than the Consolidated Revenue Fund. As a result, the estimated deficit for the Consolidated Revenue Fund for the 1989 fiscal year was not shown. We believe that emphasizing the General Fund deficit is potentially misleading to readers because it can be arbitrarily and significantly adjusted by transfers to or from the Special Funds. In future, we believe the estimated deficit of the Consolidated Revenue Fund should be clearly identified in the Estimates.

Expenditure by Function

The Estimates currently do not provide enough information about expenditure by function, such as housing, protection of persons and property, and aid to local government. In the Government's financial statements, the main income statement classifies expenditure by function. The Estimates, however, refer to expenditure function only in Schedule F. In neither document is there any information that establishes which votes fall into which function. We consider that the function information should be moved to the front of the Estimates. It should have the same level of detail as the financial statements. The Estimates should also provide information that permits the reader to relate the voted appropriations to their functional category.

Expenditures Funded by Votes

Vote and Sub-Vote Components

Votes

The *Financial Administration Act* defines a vote as "an appropriation under a Supply Act identified in the main or supplementary estimates as a vote." It does not, however, offer any guidance as to what characteristics or circumstances warrant segregation of an expenditure as a separate vote. The guidelines contained in Treasury Board's *Financial Administration Operating Policy Manual* define a vote as a "major program or combination of interrelated programs." We agree that grouping interrelated objectives is useful in structuring a vote, and in our opinion the programs grouped within each vote are reasonably interrelated.

We did note some inconsistencies in the *1988/89 Estimates* as to what is a separate vote and what is a sub-vote. The votes seem to portray a collection of individual ministry priorities rather than overall government priorities. For example, the Ministry of Agriculture and Fisheries shows the cost of operating the Milk Board ($0.3 million) as a separate vote; the Ministry of Labour and Consumer Services shows the cost of operating the Industrial Relations Council ($7.7 million) as a sub-vote; and the Ministry of Attorney General groups more than a dozen boards, commissions, and other services into one sub-vote ($51.5 million). We believe there should be a review of the vote structure in each ministry to ensure consistency throughout the Estimates.

Sub-Votes

In our view, reasonable criteria for sub-vote structure are that programs in the same sub-vote should:

- provide complementary or alternative means of achieving the same general objective;
- be authorized by the same or closely related legislation; and
- affect common client groups or segments of the public.

We found that, overall, the current sub-vote structure provides logical groupings of similar programs. For example, the Ministry of Health, Sub-Vote 46(e), Continuing Care Services, groups ministry-operated residential care services, funding of non-profit facilities, and homemaker agencies providing long-term care and home care services.

Vote Descriptions

The *Financial Administration Act* requires the purpose of the expenditure in each vote to be described. The vote descriptions in the Estimates generally consist of a listing of the activities to be undertaken or the services to be provided. This is good information because it tells the reader what is to be done. However, in many cases, there is no explicit description of why the activities are to be undertaken or why services are to be provided (the objective). For example, the Ministry of Social Services and Housing, Sub-Vote 62(b), Direct Community Services, states, "This sub-vote provides for the salaries and expenses of ministry staff in regional, area and district offices and community-based programs and for rental and maintenance of buildings and offices occupied by ministry field services."

Where vote and sub-vote descriptions do include a statement of objectives, the statements are fairly general. For example, the then Ministry of Environment and Parks, Sub-Vote 35(g), Wildlife Management, states, "This sub-vote provides for the maintenance and enhancement of wildlife populations and their habitats in order to satisfy society's present and future requirements for economic, social, recreational and scientific benefits." The general nature of the statements of objectives reflects the fact that votes and sub-votes usually represent groupings of a number of individual programs. Nevertheless, we believe that, where it is not already being done, many vote and sub-vote descriptions could be more useful if they included explanations of why expenditures are being made.

In addition to general objectives at the vote and sub-vote levels, we believe more information is needed at the program level about why money is to be spent and what will be achieved. This would help MLAs and the public to understand government expenditures, and would form a basis for subsequent accountability. When the Government describes its programs to the public in publications such as the *Financial and Economic Review* and the ministry annual reports, it usually does so at a detailed level. For example, the 1986/87 Annual Report of the Ministry of Social Services and Housing shows that Rehabilitation and Support Services (a separate sub-vote in the Estimates) consists of programs such as Child Day Care Subsidy, Special Needs Day Care, Achievement Centres, and Special Services for the Handicapped. At this program level, objectives can be stated more specifically and should be capable of being quantified in terms of expected results.

Estimated Expenditure Details

Program Information

The Estimates show the estimated expenditure analyzed by group account for each vote and sub-vote. Group accounts represent broad functional categories of expenditure (salaries and benefits, operating costs, asset acquisitions, grants and contributions, other expenditures, and recoveries). We believe the estimated expenditure should also be given for each program within the votes and sub-votes. This would help MLAs and the public to understand government programs better.

For 11 of the 74 votes for the 1989 fiscal year, the Estimates or the Supplement shows the estimated expenditure or descriptive information, or both, at the sub-sub-vote level. For example, the then Ministry of Provincial Secretary and Government Services, Vote 57, has each sub-vote expenditure broken down into sub-sub-votes in both the Estimates and the Supplement. Because the vote description is presented at the same level of detail, it is easy to relate one to the other.

However, there is no sense of perspective as to how much is being spent on each part of the sub-vote or sub-sub vote, because no information for individual programs is shown. For example, in the Ministry of Education, Sub-Vote 24(d), the description reads:

> Education Programs—This sub-vote provides for assessing and developing the content of educational programs, managing public instruction through curriculum development, learning assessment and provincial final examinations. This sub-vote also provides for evaluation, assessment and assistance in organizing special education programs and the provision of direct services including Jericho Hill School and the Resource Centre for the Visually Impaired. In addition, this sub-vote provides for policy liaison between the ministry and school districts, accreditation of senior secondary schools and the Passport to Education program. Finally, the sub-vote provides for textbooks and media materials to the public and independent school systems. Recoveries are received from the sale of supplementary textbooks and media materials, fees for school final transcripts and general education development tests, from provincial examination re-read fees and other miscellaneous sources.

The Estimates show expenditure of $49.5 million for this sub-vote. However, there is no indication of how much is being spent on each of the programs. We think that the estimated expenditure should be provided for each separate program making up the sub-vote.

Grants and Contributions

The group account expenditure analysis in the Supplement to the Estimates shows more detailed categories referred to as standard objects of expenditure (STOBs). Most of the MLAs we spoke to said the detailed expenditure analysis was very useful to them.

The expenditure classification, however, places over half of government expenditures in one category—grants and contributions. For the 1989 fiscal year, this classification included $8.4 billion, or 69.2% of total estimated government expenditure. This problem is partially alleviated by the detailed information included in the Supplement. Nevertheless, there are still significant amounts for which a breakdown is not given. We believe that further disclosure of grants and contributions—perhaps by recipient category—should be provided.

Capital Expenditures

Certain capital projects, primarily highways capital construction, take more than one year to complete. The Estimates only provide information about planned expenditure for the current year, along with the estimate from the preceding year. In addition, most capital projects are presented on a block funding basis, which means there is no information about specific projects. For example, in the *1988/89 Estimates,* Vote 69 for the Ministry of Transportation and Highways included $123 million for "highway capital construction." No project breakdown was presented.

Most of the MLAs we spoke with said that they need information which addresses a longer time frame than that currently presented. Also, they need it at a more detailed level. We believe additional information is essential to help the Legislative Assembly understand the extent of anticipated future expenditures at the time it approves each annual spending request. Major highway construction projects having a total anticipated cost of more than, say, $50 million, such as the Richmond East-West Highway or the Squamish Highway, should be segregated in separate sub-votes. For the general sub-vote dealing with the rest of the construction projects, we believe supplementary information should be provided for projects having an anticipated cost between, say, $10 million and $50 million. Smaller projects could be grouped and classified by region, or by type of project. The descriptions should be reasonably precise, so that terminology such as "other related projects," if used, would be clearly defined. A comparison of actual and budgeted expenditure over the life of each major project should also be provided.

Comparative Information

An important issue to most of the MLAs to whom we spoke is comparability of information. They want to be able to compare budgets from one year to another, and to have significant changes clearly identified and explained. We concluded that the information now presented in the Estimates needs to be improved to meet those needs.

Presentation of Prior Years' Amounts

The Estimates show only the current year's and the previous year's estimates, adjusted for government reorganizations. Many other provinces give three years of information (estimate for the current year, comparable estimate for the previous year, and comparable actual for the year before that) to the sub-vote level. The additional year provides a better indication of the spending trend. We believe that the Estimates should show three years' figures. We also believe it would be useful if the Estimates provided the percentage change from the previous year, as is done in some other provinces.

Explanation of Changes

The Estimates do not explain the reasons for the changes from the previous year. Major expenditure changes for several programs are identified in the budget speech and appendices. However, these documents identify primarily the amounts of the changes rather than the reasons for them. We believe that the reasons for significant changes to expenditure levels should be included in the Estimates.

Government Reorganization

Government reorganizations have, in recent years, had a significant effect on the comparability of Estimates from one year to the next. Schedule A of the Estimates provides a good overview of how changes in government organization have affected each ministry's total expenditure. However, at the vote level, we found it was sometimes difficult to understand why comparative figures were different from the original Estimates. Since the Legislative Assembly has previously approved amounts at the vote level, we think that changes to the comparative amounts should be explained at the same level. A table showing the effect on each vote of government reorganizations would improve the understandability of the Estimates.

Ministry Restructuring

No information is provided about reallocations or restructuring of votes within ministries. For example, we compared descriptions for the Administration and Support Services sub-vote in the Ministry of Health for the 1988 and 1989 fiscal years. We noted that the only changes were the addition of Vital Statistics and the deletion of Pharmacare administration. Based on expenditure information in the Estimates, these changes should have resulted in a change to the comparative figure of less than $1 million. However, the actual change in the comparative Estimates was about $11 million. There appears to have been a significant reallocation in the Ministry without any reference to it in the Estimates. The table referred to in the preceding paragraph could also show the effects on the votes of ministry restructuring.

Manpower Information

The Estimates contain a schedule that shows the estimated use of full time equivalents (FTEs) by each ministry. (An FTE refers to the employment of one person full time for one year, or the equivalent thereof.) Many of the Members we spoke to were very interested in having manpower information at a lower level of detail. We believe that disclosure of FTEs by sub-vote or program would be a useful addition to the Estimates.

Recoveries

The Government treats most monies received as revenue. However, certain amounts it treats as recoveries and offsets them against expenditure. These recoveries may be internal (from other ministries) or external. We have commented in our previous years' Annual Reports about some of the problems inherent in these different methods of revenue accounting: inconsistent treatment of similar types of revenue, and spending of estimated recoveries not actually recovered.

The recoveries process is set out in the *Financial Administration Act* and is clearly explained in the introduction to the Estimates. Also, in the *1988/89 Estimates* the Government made a significant accounting change. Business property tax revenue, intended for school purposes, was treated as revenue rather than being offset against expenditure. This change has addressed, in part, our previously stated concerns.

We continue to believe in the principle of gross accounting (showing total revenues and total expenditures). However, we recognize that in some situations, for example, where the Government is acting as agent for Crown corporations, offsetting revenue against related expenditure may be appropriate. We encourage the Government to review remaining recoveries to see whether they could be treated more appropriately as revenues. One objective of such a review would be to ensure that items of a like nature are accounted for on a consistent basis. This review would be aided if the Government established, through a clearly defined accounting policy, which type of items should be treated as recoveries.

Expenditures Funded Through Special Accounts

The presentation in the Estimates of special accounts differs from that for voted appropriations. The opening and closing balances of the accounts are shown, along with a summary of operating transactions (revenues and expenditures, which affect the Consolidated Revenue Fund annual deficit) and a summary of financing transactions (loan payments and receipts, which do not affect the Consolidated Revenue Fund annual deficit). There is also a description of each special account, which usually shows the general purpose of the account and a reference to the enabling legislation. In the *1988/89 Estimates,* there were 30 active special accounts and the estimated total closing balance for all of them at March 31, 1989, was $503 million.

The preceding sections dealing with vote descriptions, program information, and comparative information are also relevant to special account expenditure. In addition, we believe that reference to monetary limits or time limits would provide a good perspective of the current year's special account activity. For example, the Tourism Incentives Program, an account administered by the then Ministry of Economic Development, was established by the *Industrial Development Incentive Act*. Although the Act limits loans under this program to $25 million and states that no loans are to be made after March 31, 1991, the Estimates show neither the monetary nor time limits.

The estimated expenditure from special accounts is not analyzed by group account or STOB. As a result, on a government-wide basis the expenditure analysis is incomplete. We believe that group account and STOB analyses of special account expenditure should be presented in the Estimates, in the same way they are presented for voted expenditure.

What Is Needed to Improve Accountability?

We have already suggested several improvements to the Estimates, including the provision of program objectives and estimated program expenditures. If implemented, these would go a long way toward establishing a good basis for accountability. However, even if this information is given, we believe additional information will still be required.

In particular, we believe that information on expected results is an important element of accountability. Thus, it should be provided to the MLAs at the beginning, as well as at the end, of the accountability cycle. At present, the Estimates provide no such information. By projecting the results it hopes to achieve, the Government could better justify its resource requirements. Moreover, the added information would increase the usefulness of ministry annual reports by allowing expected results to be compared with actual results.

Expected Results Information

Expected results information would describe what the Government intends to achieve; what level or quality of service it intends to provide; or how efficient, effective, and economical its programs should be. The information may be detailed or general, quantitative or qualitative, statistical or narrative. Examples of expected results indicators are shown in Figure 3.3. The information should provide MLAs and the public with an understanding of the intended results for government programs. It should also provide a base against which the Legislative Assembly can assess whether the Government achieved what it set out to do.

Expected Results Information

Expected results information may be provided in different ways. For example, at the federal level, three main types are used: operational outputs, program outputs, and program outcomes.

Operational outputs describe the goods produced or services performed by a program. They focus on what is done within a ministry to deliver the program, and may be useful in measuring efficiency.

Program outputs are those immediate benefits and outputs produced by the program for its direct clients or target audience. They are better indicators of program effectiveness than are operational outputs.

Program outcomes are the consequences, both intended and unintended, on society of the production of program outputs. They are the most useful type of results for assessing the effectiveness of a program. However, because of the influence of other programs and external factors, program outcomes are often difficult to measure.

Examples of Expected Results Information

	Silviculture Program for Backlog NSR Land*	Employment Training Program
Operational Outputs	No. of trees to be planted Hectares of backlog NSR lands to be planted	No. of clients referred for training No. of contracts negotiated No. of courses provided No. of counselling sessions provided
Program Outputs	Expected success rate (of areas treated, % successfully restocked) % reduction in backlog NSR lands	Months of work experience provided No. of jobs obtained by clients Skills achieved by clients No. of clients receiving classroom training
Program Outcomes	Degree of productivity increase in forest lands Degree of change in public attitude toward forest resource management	Impact on level of GAIN payments Impact on long-term employability of clients Contributions to society by employed clients

* Backlog NSR (not sufficiently restocked) land is forest land which is insufficiently restocked with seedlings several years after being denuded by harvesting, fires, or pests.

(This presentation shows only one of several potential bases for describing expected results.)

FIGURE 3.3.

Expected results information.

The need for this type of information has influenced some other jurisdictions to produce department or ministry supplements to the main Estimates. In 1979, the Royal Commission on Financial Management and Accountability of the Federal Government noted, "effective accountability demands that evaluation of all aspects of programs begin by Parliament requiring clear identification of tasks and goals." Since 1981, the Federal Government has required each department to prepare a separate volume that documents its spending plan and provides some expected results information.

Elected officials have recognized the need for this information. The transcripts of the Canadian Council of Public Accounts Committees' conferences of the past few years show that concern over the lack of results information is a recurring theme. In Britain, a 1986/87 report of the Committee of Public Accounts stated, "It is important for Parliament to know the overall aims and specific objectives of expenditure not only at the time it scrutinizes expenditure but also later as a benchmark for assessing performance when departments account for their spending."

In Canada, several provincial auditors have reviewed the Estimates in their jurisdictions. In his 1987 report, the Auditor General of Prince Edward Island noted that program information "assists legislators in assessing the program's achievement of objectives compared to expected results." He called for more program information to be provided with the Estimates. In a similar vein, the Auditor General of Nova Scotia suggested that a greater use of results indicators would assist in the effectiveness of the Estimates process.

In British Columbia, the *Ministry of Forests Act* requires the Ministry to submit annually to the Legislative Assembly a five-year forest and range resource plan. The plan includes a description of the nature and goals of the Ministry's main programs. Much of the information is specific and provides the sort of information we believe is essential for good accountability. For example, "The goals of the Harvesting Program are to maintain an average provincial timber harvest of 75 million m^3 per year. . . ."

The instructions for the *1989/90 Estimates* required ministries to give Treasury Board a summary of the major outputs for each program. We support this move toward obtaining valuable information about ministry programs. However, experience in other jurisdictions suggests that it takes time to develop a broad range of useful, reliable information about expected results. Also, a recurrent finding of our value-for-money audits in recent years has been the need for ministries to develop such information to enable them to judge the effectiveness of their programs. Thus, it will not be immediately possible to provide complete and appropriate expected results for all programs because some of the required information will not be available in all the ministries.

Presenting Additional Information

We noted earlier that the Government should move toward producing a separate supplement for each ministry. Each supplement could contain an overview of the ministry's activities; a clear identification of its legislated responsibilities; and, for each vote, an analysis by program of objectives, activities, estimated expenditures, and expected results. It could also include explanations of the significant changes from the previous year and detailed manpower (FTE) information. This information would provide a good basis for subsequent ministerial accountability. Each supplement should be available to MLAs before their debate of that ministry's Estimates.

Both the *Financial and Economic Review* and the ministry annual reports already contain some useful information about government programs. However, the timing of their publication is such that recent information is not available when the Legislative Assembly is debating the Estimates. Furthermore, the *Financial and Economic Review* does not include detailed program expenditure information. The 1982 publication, "Organization of the B.C. Public Service" also contained some information about government programs. We feel that the information in these publications could, if updated, provide a good base for the separate ministry supplements.

There would be a cost to produce the additional information. However, most of the cost would be for developing expected results information, which, as we have explained, is necessary for the good management of government activities.

Nevertheless, the production of separate ministry supplements would require additional work both for ministries and Treasury Board Staff (which would need to coordinate the production of the supplements). The Province of Manitoba introduced ministry supplements over a six-year period from 1983 to 1988. Initially, two supplements were produced on a trial basis. These were well received by Members of the Manitoba Legislative Assembly, so other ministries began producing them. A gradual introduction of ministry supplements, which would also allow time for ministries to develop appropriate expected results information, might be a good way for British Columbia to proceed.

The Incentive for Change

The Estimates serve a wide audience and are an important element in the accountability cycle. They are an information and control tool for government managers. To a broader audience—the public—they are an indicator of the decisions the Government has made, and the priorities it has set. They help show the direction in which the Government is leading the Province, socially and economically. Most importantly, however, the Estimates assist the Legislative Assembly in fulfilling a key role assigned to it in a parliamentary democracy: controlling the public purse.

Because of their use by a broad group of readers, the Estimates should provide information that will meet the different needs. Every government wants its policies and programs to be understood. We believe that the additional information outlined in this report would help Members and the public gain a better appreciation of the benefits of government policies and programs. In many cases, criticism of government may arise out of a lack of understanding, which may be caused by lack of information.

The overriding issue, however, is the ability of Members to vote funds for government programs with a full understanding of why the Government needs the funds and what it intends to achieve with them. We believe our proposals, if implemented, will improve the understandability of government spending plans, and also help provide a good basis for accountability. Such steps, we believe, would improve the effectiveness of the control that the Legislative Assembly exercises over the public purse.

Review of Recent Initiatives: Ministry of Transportation and Highways

Purpose of the Review

In July 1987, a Commissioner Inquiry, led by Mr. Douglas L. MacKay, P.Eng., began its investigation into the estimated and actual costs of highways constructed in British Columbia in recent years, with particular reference to the Coquihalla Highway. In his report, presented in December 1987, Mr. MacKay criticized the way the Ministry of Transportation and Highways planned, controlled, and reported major highway construction projects. He also questioned the appropriateness of the Ministry's organizational structure.

Last year, we reported having discussed with senior officials at the Ministry their plans for remedying the problems identified in the Commissioner's report. At that time, we were satisfied that management appreciated the need for improvements, and that the general thrust of their proposed changes was appropriate. We undertook to monitor the progress of the Ministry as it made changes in its administration, and to conduct an audit of its revised management practices at the earliest appropriate time.

Many of the Ministry's improvements were still in progress in 1988, and so we did not conduct a full audit. We did, however, continue to monitor the Ministry's efforts, and the results of our review are reported here.

Scope of the Review

We focused our review on the seven major areas of deficiency identified in the Commissioner's report: organization, planning, the approval process, cost estimating, project management, cost control and reporting, and public accountability. We were concerned mainly with determining what steps the Ministry had taken to correct the deficiencies, but we did not attempt to assess the appropriateness or completeness of those steps taken to date. Such an evaluation will be the subject of a separate value-for-money audit of the Ministry in 1989. In addition to our general review, we also examined the procedures for accumulating and reporting costs on the Okanagan Connector project (formerly referred to as Coquihalla Highway—Phase 3) to determine whether the procedures were adequate to provide reliable project cost information.

Overall Conclusion

We found that the Ministry has taken action on all the major recommendations made in the Commissioner's report. This includes:

- completing a major reorganization;
- improving its long- and short-term planning, and its cost estimating procedures;
- expanding the scope and detail of information contained in submissions to Treasury Board and the Executive Council (the Cabinet);
- redesigning its standard contract forms and issuing a manual covering financial contract administration;
- instituting a new management structure for directing major highway construction projects; and
- improving its public accountability.

As well, it has implemented status and cost reporting procedures for its major projects. We reviewed these procedures as they relate to the Okanagan Connector project, and concluded that they could be relied upon to provide proper accounting for costs on the project.

Follow-up on the Commissioner's Report

The Ministry of Transportation and Highways began to take corrective action on the seven indicated deficiencies shortly after the Commissioner's report was issued. By area of deficiency, our findings were as follows.

Focusing on the Organization

The Commissioner questioned the effectiveness of the Ministry's organization, particularly in handling major capital projects. In response to the Commissioner's recommendations, the Ministry engaged a management consulting firm to review the Ministry's organizational structure.

In October 1988 the Ministry carried out a wide-ranging reorganization. This resulted in a significant transfer of responsibilities and resources to the six highways regions. As well, important changes were made regarding how major highway construction projects are handled. Each one is now assigned to a project director or manager who has full responsibility for all aspects of its management. The project directors for major projects report directly to the Assistant Deputy Minister, Planning and Major Projects.

Developing a Framework for Planning

A key recommendation of the Commissioner Inquiry was that the Ministry develop appropriate long- and short-term plans for capital projects. The Ministry has taken various steps to improve its planning process.

In October 1988 it released an 18-volume study done by a consulting engineering firm in cooperation with Ministry staff. The study, "A Transportation Planning Overview for the Province of British Columbia" outlines a detailed framework for long- and short-term planning of major transportation-related developments within the province. Needs for new highway developments would be defined by the regions as well as by ministry functional departments, and a Strategic Transportation Planning Committee chaired by the Minister would establish the priorities of individual projects. The first planning cycle under the new framework has begun, with input from the regions expected by August of 1989.

Also in line with the Commissioner's recommendations, the Ministry is now classifying all projects, with a total estimated cost of $50 million or more, as "major." Other projects that have unique characteristics or are particularly complex can also be classified this way. Major projects are assigned to a designated project director as soon as they are announced, and are planned and reported upon as separate entities.

Improving the Approval Process

Another concern expressed in the MacKay report involved the lack of information provided to Treasury Board, the Cabinet, and the Legislative Assembly about the scope, benefits, and total expected cost of proposed major highway development projects.

The Ministry has since expanded the scope and detail of information contained in submissions to Treasury Board and the Cabinet, and addressed the crucial issue of reporting on estimated and actual total project costs. A ministry submission to Treasury Board and the Cabinet in November 1987 concerning the Okanagan Connector outlined the scope of the project, stated some of the expected benefits, and provided an expected completion date as well as projected cash flow requirements on a budget year and total project basis.

The MacKay Commission also recommended that projects announced in the conceptual stage only be funded to cover the initial planning stage. This was deemed important to ensure that major funding would not be committed until a reasonable estimate of total project cost was available. We recognize that this issue is difficult to resolve because the Ministry receives its funding by fiscal year rather than by individual project. Thus, its first budget request for a specific major project may include funds to be used for stages beyond the initial planning phase. Although each budget request must be accompanied by an issue paper giving an estimate of total project cost, such estimates are subject to a great deal of uncertainty in the early stages of the project life. The Ministry and Treasury Board still need to deal with the issue of the funding of projects that are in the conceptual stage.

Providing Better Cost Estimates

The Commissioner's report was critical of the Ministry's project cost estimating procedures. The Ministry has taken steps to improve and document those procedures.

Although it uses up-to-date procedures and manuals for designing the highways it builds, the Ministry does not have standard procedures for estimating the cost of them. A ministry task force was set up in January 1988 to review current cost estimating procedures and to recommend improvements in line with the suggestions made in the MacKay report. The task force issued a report in March 1988, recommending the development of a detailed manual for estimating costs of highway construction both at the macro and detailed level. It also recommended that a computerized database, containing the details and final costs of completed construction contracts, be established to assist planners and designers in developing more accurate estimates. The ministry executive approved the recommendations of the task force, and both the manual and the database are scheduled to be available by April 1, 1989.

The accuracy of the various types of estimates made by the Ministry was never specified before the Commissioner Inquiry was conducted. The recently released study, "A Transportation Planning Overview for the Province of British Columbia", deals with this problem. It proposes that the Ministry use six standard types of estimates having specified degrees of accuracy. We noted that recent plans, reports, and submissions made by the Ministry concerning the Okanagan Connector all specify the reliability of the estimate. As well, steps have been taken to update detailed design estimates on a monthly basis.

Managing Major Projects

Another shortcoming reported on by the Commissioner was the lack of specifically assigned overall responsibility for major projects. The Ministry has now appointed project directors for all its major construction projects. Indeed, even smaller projects handled by regional offices are now the responsibility of designated project managers.

The project directors for major projects report directly to the Assistant Deputy Minister, Planning and Major Projects. Management committees, chaired by the Assistant Deputy Minister, Planning and Major Projects, provide overall guidance to the project director. Project directors are directly responsible for approving all charges made to their projects. They also have the means to guide a project's progress, assign priorities, and, in general, keep the project on schedule. Each project director has a financial officer reporting to him, who is responsible for tracking project costs and providing up-to-date reports on actual and projected expenditures.

The Ministry is instituting training programs for project directors and managers in order to update them on modern project management techniques. To bolster the expertise in this field further, the Ministry has also contracted two project directors with extensive project management experience in the private sector. The Ministry has also redesigned its standard contract forms and issued a manual on financial contract administration. It is in the process of producing a manual for field administration of contracts.

Reporting and Controlling Costs

Reporting and controlling costs on major highway projects was another problem identified by the Commissioner Inquiry. The Ministry has taken several steps to address this problem.

For one, it has instituted new status and cost reporting procedures for the management system pilot project, the Okanagan Connector, and has taken action to replace its present, inadequate financial management information system. The costs incurred on the Okanagan Connector are now summarized in two separate monthly computer-generated reports. One report extracts all project-related costs from the main ministry accounting system; the other is based on cost information obtained directly from field supervisors. The outputs of the two systems are compared and reconciled at the end of each month. The existence of the two parallel systems provides an extra measure of confidence that all expenditures have been accounted for.

To address the shortcomings of its internal accounting system, the Ministry also set up a task force to recommend a new system that would meet all defined requirements. The task force has recently submitted its recommendations, and the Ministry is now awaiting Treasury Board approval of a new system to replace all present financial management systems within the Ministry. The new system will receive input directly from computer terminals in field offices and will track commitments as well as actual expenditures. The Ministry expects the new system to be operational in about a year from the date of Treasury Board approval.

Also, as part of the Ministry's efforts to report and control costs, the project director for the Okanagan Connector project issues monthly and quarterly reports. These describe the physical status of the project, and give detailed financial information about expenditures by month, current fiscal period, and past fiscal periods, as well as estimates of cost to complete the project. An updated project schedule, comparisons to budget, and currently authorized funding are also presented. The monthly and quarterly reports are distributed to the Deputy Minister and the ministry executive.

Accounting to the Legislative Assembly and the Public

The MacKay Commission expressed concern about the way the Ministry accounted for its activities to the Legislative Assembly and the public. The Commissioner recommended that each major highway construction project have a separate sub-vote in the Government's annual Estimates, and that the project description clearly define its scope, benefits, and total estimated cost. Mr. MacKay also recommended that the Ministry, in its annual report, report on each major project separately, providing both actual expenditures to date, as well as projected total expenditures.

The Ministry has addressed these concerns. The Deputy Minister has recommended to Treasury Board that separate sub-votes be set up in the *1989/90 Estimates* for each of the three major projects that will be started or underway during the 1989/90 budget year: the Okanagan Connector, the Island Highway, and the Cassiar Connector. The Ministry has also decided to provide detailed information about two major projects, the Okanagan Connector and the Richmond Freeway, in its 1987/88 annual report.

Accounting for Costs on the Okanagan Connector

The Ministry is using the Okanagan Connector as the pilot project to test its new approach to managing and controlling major projects.

This 108-km highway will connect Merritt with Peachland in the Okanagan Valley, and will cost an estimated $225 million. According to Ministry records, approximately $86 million has been spent on this project to October 31, 1988.

We reviewed the procedures used to account for the cost of this project. Our review was designed to determine whether:

- the scope of the project was clearly identified;
- all design, property acquisition, and construction projects that should have been included were included within the scope of the project; and
- the Ministry's project reporting system included the cost of all projects relating to the Okanagan Connector.

We concluded that the systems and procedures in place could be relied on to provide proper accounting for costs on the project.

Looking Ahead

The Legislative Assembly should expect the Ministry to provide greater public accountability by: ensuring that all major projects (i.e., those exceeding $50 million in total cost) are fully described in separate sub-votes in the Estimates; providing detailed performance and financial reporting for each major project in its annual report; and developing a solution to the problem of having to ask for significant amounts of funds for a major project before its scope, benefits, and overall estimated cost have been determined.

The Office of the Auditor General intends to follow up on this review by performing a comprehensive value-for-money audit of the Ministry during 1989.

Management of Government Employee Leave Entitlements

Significance

Government employees earn significant benefits in the form of vacation and other leave entitlements. These benefits represent an annual cost to the Government of approximately $110 million. As at March 31, 1988, the Government's accumulated liability for leave entitlements amounted to approximately $100 million.

Leave entitlement information must be maintained and controlled to ensure that payments made or time off provided is only for leave earned, and that the Government's financial liability for unpaid leave is properly reported. The information is used by ministries for day-to-day personnel management, by the Government Personnel Services Division (GPSD) for analysis and labour negotiations, and by the Office of the Comptroller General (OCG) for interim and year-end financial reporting.

Our Concerns

We have commented on the weaknesses in the Government's leave management systems in each of our Annual Reports since 1982. However, despite steps taken by the Government, an adequate leave management system has yet to be implemented. We are also concerned that, while developing a new central leave management system in the period 1986 to 1988, the Government did not follow its own standards and guidelines for systems development, and the system ultimately had to be abandoned after significant costs were incurred.

From 1982 to 1989

Historically, ministries have each maintained manual leave records. In addition, a central system existed for some years to facilitate central reporting needs and the control of leave entitlements. In 1982, we raised concerns about the completeness, accuracy, and timeliness of information provided by the ministries for inclusion in the central leave management system, and about the apparent unnecessary duplication of information between the ministries and the central system. In response to our 1982 report, and in each year since, the Government has indicated that it was addressing our concerns. The following is a synopsis of the steps which have been undertaken to date by the Government.

1983 - The OCG indicated that leave management would be incorporated into the payroll system under its responsibility. This did not occur, and the central leave management system, as previously structured, continued to exist.

1984 - The responsibility for leave management was transferred to the Ministry of Provincial Secretary and Government Services. The Ministry was to undertake to strengthen the leave management system and identify linkages with the payroll system.

1985 - The Ministry of Provincial Secretary and Government Services indicated that the central leave management system would be made redundant by a proposed new personnel management information system, the responsibility for which was assigned to GPSD.

1986 - The GPSD obtained approval from Treasury Board for the development of a corporate personnel management information system (CPMIS) and a corporate leave management system (CLMS) at a total estimated cost of $401,000.

- In November, the old existing central leave management system was terminated because it could not adequately address changes in benefits arising from labour negotiations concluded at that time. As a consequence, a central system was no longer in place.

1987 - The GPSD began implementing CLMS and, by the end of the calendar year, had incurred approximately $700,000 in direct development costs. Costs for CPMIS and CLMS combined exceeded the original estimate by approximately $500,000, although neither part of the project had been completed. At the same time, various government ministries expended time and resources in connection with the implementation.

- In November, OCG hired a consultant to review the adequacy of financial controls over leave management at the ministry level.

1988 - Treasury Board, because of its growing concerns over changes in scope, delays in implementation, and cost overruns on the CPMIS/CLMS project, hired a consultant to evaluate the project.

- In March, the consultant to Treasury Board recommended that the CLMS part of the project be cancelled, concluding that the project was inadequately controlled and that an inappropriate, technically unacceptable system was emerging. At the time CLMS was abandoned, information relating to approximately 25% of all government employees had been entered onto the system.

- From April to July, reports issued by the consultant hired by OCG indicated that, in most ministries, there existed weaknesses in internal control over the completeness, accuracy, and authorization of leave records.

- In May, GPSD hired the consultant used by Treasury Board to study alternatives to CLMS. As a result, in the fall of 1988, GPSD requested funding from Treasury Board for a decentralized and computerized leave management system. The planned system would use several types of software, so that it could accommodate the technical environments of the various ministries and also meet the requirements of GPSD and OCG.

-In December, Treasury Board approved the release of $450,000 from funds previously approved for CLMS but frozen at the time the project was cancelled. These funds are designated for software development in the 1989 fiscal year.

1989 -Early in 1989, development work began in the ministries. The GPSD is setting up an implementation committee, representing all system users, to provide leadership for the implementation process and to review overall progress on the projects. Implementation is to be completed by March 31, 1990.

Looking Ahead

We urge the Government to expedite the implementation of an adequate leave management system. The system should be designed to:

- provide timely, complete, and accurate reporting of leave entitlements and transactions for day-to-day ministry purposes;
- provide timely, accurate, and consistent financial and statistical data compatible to the needs of OCG and GPSD;
- provide valid, authorized input data to the government payroll system for leave entitlement payments;
- facilitate the portability of leave management data for individual employees from ministry to ministry; and
- avoid unnecessary duplication of records.

The implementation process should ensure that:

- development of the system is monitored for adherence to Treasury Board's Information Systems Management Framework, which constitutes the Government's existing policies and guidelines for systems development;
- under the guidance of OCG, appropriate control standards for financial systems are incorporated into the system, and control weaknesses identified by the consultant to OCG are addressed and eliminated; and
- responsibility for the reliable recording of leave data is assigned to appropriate ministry managers.

Response of the Ministry of Government Management Services

The Ministry of Government Management Services is committed to providing leadership to Ministries in the development of automated Leave Management Systems which meet Ministry requirements, Office of the Comptroller General requirements and Government Personnel Services Division requirements. The Ministry will endeavour to assist all Ministries in having their systems operational by March 31, 1990.

Part IV: The Office of the Auditor General

Part IV: The Office of the Auditor General

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The Office of the Auditor General

The Office of the Auditor General in British Columbia was established in 1977. It carries out audit responsibilities encompassing the finances and operations of all ministries and central agencies of government, as well as those of some 30 Crown corporations and other public bodies. Mr. George L. Morfitt, F.C.A., was appointed Auditor General in February, 1988.

The Auditor General's legislated responsibilities are set out in the *Auditor General Act*. Sections of the Act relevant to those responsibilities are presented as Appendix A to this Report. The Office has also developed a Mission Statement that concisely describes the role of the Auditor General, and the means used by him to carry out this role. This Statement, with explanatory comments, appears in Appendix B.

Operation of the Office

Organization

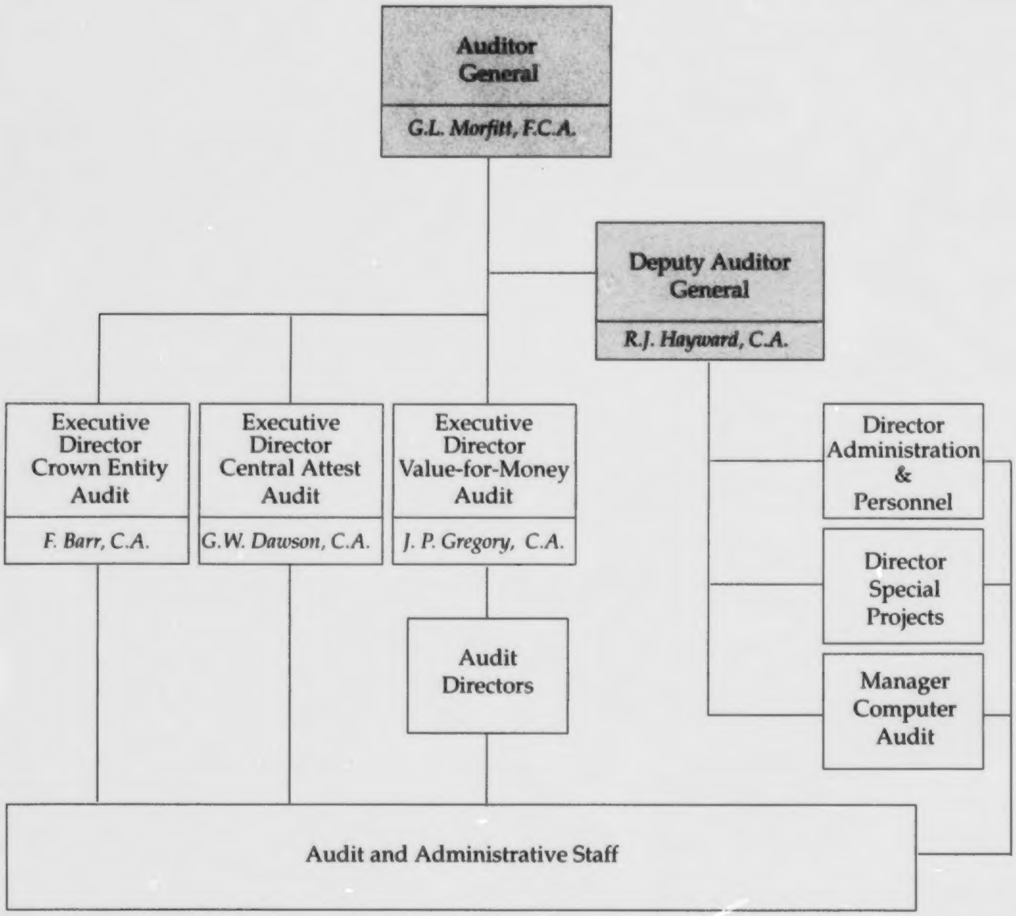
The Office was reorganized during the past year following a study to determine how available resources might be best deployed in carrying out the Auditor General's mandate. As a result of this reorganization, additional staff time has been directed to value-for-money and special audit activities. Because staff and financial resources are fixed by an annual budget, these changes were made possible through the realignment of senior staff responsibilities, and overall improvements in the use of Office resources.

The Executive Committee, comprising the senior executive staff of the Office, continued in its policy-setting role. As well, three new committees, drawing from the professional experience of operational staff, were established. These are the Annual Report, Computer Audit, and Quality Assurance committees.

Figure 4.1 shows the present organizational structure of the Office.

FIGURE 4.1

ORGANIZATION OF THE OFFICE OF THE AUDITOR GENERAL
DECEMBER 1988


Auditor General
G.L. Morfitt, F.C.A.
Deputy Auditor General
R.J. Hayward, C.A.
Executive Director Crown Entity Audit
F. Barr, C.A.
Executive Director Central Attest Audit
G.W. Dawson, C.A.
Executive Director Value-for-Money Audit
J. P. Gregory, C.A.
Audit Directors
Director Administration & Personnel
Director Special Projects
Manager Computer Audit
Audit and Administrative Staff

Personnel

At December 31, 1988, the Office employed 87 staff. Of these, 47 had professional or other advanced academic qualifications. A further 28 were students registered in programs leading to professional accounting designations. The balance of staff provided administrative, technical, and clerical support services.

A high rate of audit staff turnover continued during the year. Because of our high recruiting standards, and the training and experience provided, we find that our personnel quickly qualify for more senior positions in other areas of the public service, and in the private sector. This, in turn, necessitates an almost continuous recruiting program in which we must compete primarily with private sector employers, while operating within the constraints of public service staffing policies, procedures and salary scales.

The audit methodology of the Office requires that considerable judgement be exercised by auditors, a skill which is best gained through experience. The recruitment and retention of experienced audit staff therefore remains a high priority in order for the Office to maintain and continue to deliver quality audit services.

Professional Development and Training

The Office is committed to the professional development of its staff. This commitment is essential to establishing and maintaining the high level of skill required to carry out Office responsibilities.

Training and development occurs at two levels in the Office. For staff who have already attained professional status, an annual program of professional development is in place which concentrates on four key areas:

- accounting and auditing;
- information technology and computer auditing;
- communication skills; and
- management and supervisory skills.

A major review of this program has recently been completed. New courses are under development, and schedules have been established to ensure that staff will have access to those courses relevant to their future work assignments. Professional employees are also encouraged to undertake advanced studies in courses offered at the universities and colleges.

For audit staff who have yet to achieve professional status, the Office supports a training program in which participants pursue courses of study leading to a professional accounting designation. The Office is approved as a "practicing office" by the Institute of Chartered Accountants of British Columbia. It is also considered, by the Certified General Accountants Association of British Columbia and the Society of Management Accountants of British Columbia, to be an acceptable employer for training students.

Office Facilities and Equipment

A major rearrangement of our office accommodation in Victoria was completed during 1988. This is the first significant change since we first occupied the space in 1979. It has resulted in a more efficient use of the space available, and an improved working environment for our staff.

The program to equip our audit staff with micro-computers was accelerated during the year. Twenty machines were acquired, bringing the total in use in the Office to 43. Our experience has proven that access by our staff to this modern equipment is now essential for the conduct of audit work, as almost all accounting records that we audit are now computerized. Staff can take the new portable and laptop computers into clients' offices, and so perform work much more efficiently than before.

Operating Budget and Costs

Funding provided by the Legislative Assembly for the operation of the Office of the Auditor General totalled $4,490,531 for the fiscal year ended March 31, 1988. The following are details of these expenditures, as published in the Public Accounts:

Salaries and benefits	$3,621,574
Operating costs	758,569
Asset acquisitions	201,477
Grants and contributions	40,000
	4,621,620
Recoveries	(131,089)
	$4,490,531

The accounts of the Office of the Auditor General are audited annually by an auditor appointed by the Treasury Board. That auditor reports on the results of his audit to the Speaker, who is required to present the auditor's report to the Legislative Assembly. The audit for the fiscal year ended March 31, 1988, has been completed, and reported on to the Speaker.

Professional Activities

Staff of the Office of the Auditor General participate in a wide variety of activities associated with their professions. This involvement ensures that the Office is represented in those groups that make important decisions affecting the work of the Office.

Through membership, committee and executive service, and as contributors to technical activities and research, members of our staff support the following professional organizations:

Institute of Chartered Accountants of British Columbia
Certified General Accountants Association of British Columbia
Society of Management Accountants of British Columbia
Canadian Comprehensive Auditing Foundation
EDP Auditors Association
Institute of Internal Auditors
Financial Management Institute of Canada
Institute of Public Administration of Canada

Advisory Council

Several senior professional accountants have served on a council of advisors to the Auditor General during the past year. Their contribution to the work of the Office is highly valued and greatly appreciated.

Professional Affiliations of the Office

The Office is involved in various ways with the work of several organizations whose activities are closely tied to the aims and objectives of the Office.

Public Sector Accounting and Auditing Committee

The Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants (CICA) was formed in 1981 to promote consistency and comparability in financial reporting by our federal, provincial and local governments. Research conducted by the CICA had found major variations in government reporting practices, and in the way governments accounted for similar transactions and events. It had also shown that government financial reporting needs differed from those of private enterprise because of government's different objectives and operations, and its need to be publicly accountable.

The Committee is made up of senior representatives from the public and private sectors and has, as its overall objective, the improvement and harmonization of financial reporting, accounting policies, and auditing practices in the public sector. To meet this objective, PSAAC issues statements that recommend standards for good practice in these areas. As well, it initiates research studies on public sector accounting and auditing matters.

To date, PSAAC has issued nine statements:

Public Sector Accounting Statements:
- Disclosure of Accounting Policies (September 1983)
- Objectives of Government Financial Statements (November 1984)
- General Standards of Financial Statement Presentation for Governments (November 1986)
- Defining the Government Reporting Entity (November 1988)
- Accounting for Employee Pension Obligations in Government Financial Statements (November 1988)

Public Sector Auditing Statements:
- Auditing in the Public Sector (May 1985)
- Audit of Financial Statements in the Public Sector (May 1985)
- Auditing for Compliance with Legislative and Related Authorities (May 1986)
- Value-for-Money Auditing Standards (March 1988)

Our Office regularly contributes comment and advice to PSAAC in its research and standard-setting work. We fully support the Committee's efforts to gather widespread support for sound accounting and auditing practices in the public sector.

Canadian Comprehensive Auditing Foundation

The Canadian Comprehensive Auditing Foundation is a national cooperative association established to further the development and application of value-for-money auditing concepts. It conducts research, develops and provides training courses, and, through its national perspective, facilitates the sharing of information by members in both the public and private sectors.

The Office supports the work of the Foundation by making an annual grant. As well, members of our staff participate actively in research projects, training activities, and annual conference proceedings.

Canadian Conference of Legislative Auditors

The Canadian Conference of Legislative Auditors is an informal association of Auditors General and Provincial Auditors from the senior governments of Canada. Through its annual meeting, the Conference facilitates the exchange of information and experiences by those actively involved in legislative auditing. Several senior staff of the Office participated in the 1988 meeting held in Halifax, Nova Scotia.

At the same time, also in Halifax, representatives of Public Accounts Committees from across Canada met. A joint meeting held between the two groups provided an opportunity to discuss topics of common interest.

Public Accounts Committee

British Columbia's *Auditor General Act* requires that the Annual Report of the Auditor General, after being tabled in the Legislative Assembly, be referred to the Public Accounts Committee. This Committee of the legislature, made up of a cross-section of members of the Assembly, is empowered to examine and inquire into those matters referred to them by the legislature. Traditionally, a substantial portion of the Committee's deliberations relate to information contained in the Auditor General's Annual Report.

The last Report of the Auditor General was tabled in the Legislative Assembly on April 12, 1988. Discussion on its contents by the Committee began on April 19 and continued over eight meetings to June 21, 1988.

The Committee issued a report on its activities which was tabled in the Legislative Assembly on June 28, 1988. That report reviewed the work of the Committee and provided observations and recommendations on a variety of issues raised by the Auditor General. As a result, the Assembly has been provided with useful information and comment relating to the accounting for, and management of, public resources in British Columbia.

Appendices

Appendices

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Appendix A

Sections of the Auditor General Act Relevant to the Responsibilities and Authority of the Auditor General

Examination of Accounts

6. (1) The Auditor General shall examine in the manner he considers necessary the accounts and records of the government relating to the consolidated revenue fund and all public money, including trust and special funds under the management of the government, and to public property.

(2) Notwithstanding any other Act, the Auditor General

(a) shall be given access to the records of account and administration of any ministry; and

b) may require and receive from any person in the public service, information, reports and explanations necessary for the performance of his duties.

Report on Financial Statements

7. (1) The Auditor General shall report annually to the Legislative Assembly on the financial statements of the government, including those required by section 8(2) of the *Financial Administration Act*, respecting the fiscal year then ended.

(2) The report shall form part of the public accounts and shall state

(a) whether he has received all of the information and explanations he has required; and

(b) whether in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the government in accordance with the stated accounting policies and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the report of the Auditor General does not contain the unqualified opinion required under this section, the Auditor General shall state the reasons why.

Annual Report

8. (1) The Auditor General shall report annually to the Legislative Assembly on the work of his office and call attention to anything resulting from his examination that he considers should be brought to the attention of the Legislative Assembly including any case where he has observed that

(a) accounts have not been faithfully and properly kept or public money has not been fully accounted for;

(b) essential records have not been maintained;

(c) the rules, procedures or systems of internal control applied have been insufficient

  (i) to safeguard and protect the assets of the Crown;

  (ii) to secure an effective check on the assessment, collection and proper allocation of the revenue;

  (iii) to ensure that expenditures have been made only as authorized; or

  (iv) to ensure the accuracy and reliability of the accounting data; or

(d) public money has been expended for purposes other than for which it was appropriated by the Legislature.

(2) In the report the Auditor General may also include an assessment

(a) as to whether the financial statements of the government are prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure; or

(b) as to whether any program being administered by a ministry is being administered economically and efficiently.

Trivial Matters

9. The Auditor General need not report to the Legislative Assembly on any matter he considers immaterial or insignificant.

Submission of Annual Report

10. (1) A report of the Auditor General to the Legislative Assembly shall be submitted by him through the Minister of Finance.

(2) On receipt of a report of the Auditor General, the Minister of Finance shall lay the report before the Legislative Assembly as soon as possible.

(3) If the Minister of Finance does not lay the report before the Legislative Assembly on the first sitting day following the receipt of the report by him, the Auditor General shall transmit the report to the Speaker and the Speaker shall lay the report before the Legislative Assembly.

(4) On being laid before the Legislative Assembly, the annual report of the Auditor General shall be referred to the Public Accounts Committee of the Legislative Assembly.

Special Reports

11. The Auditor General may at any time make a special report to the Legislative Assembly on a matter of primary importance or urgency that, in his opinion, should not be deferred until he makes his annual report.

Other Reports

12. The Auditor General may at any time make a report to the Minister of Finance, the Treasury Board, the Lieutenant Governor in Council, or any public officer on any matter that in the opinion of the Auditor General should be brought to his or their attention.

Special Assignments

13. The Auditor General may undertake special assignments at the request of the Lieutenant Governor in Council, but he is under no obligation to carry out any requested assignment if, in his opinion, it would interfere with his primary responsibilities.

Staff in Ministries

14. (1) The Auditor General may station in any ministry a person employed in his office to enable him to more effectively carry out his duties, and the ministry shall provide the necessary office accommodation for a person so stationed.

(2) The Auditor General shall require every person employed in his office who is to examine the accounts or the administration of a ministry pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that ministry.

Inquiry Powers

15. The Auditor General may examine any person on oath on any matter pertaining to his responsibilities and for that examination the Auditor General has all the powers, protection and privileges of a commissioner under sections 12, 15 and 16 of the Inquiry Act.

Public Bodies

16. (1) Notwithstanding any other Act, where the Auditor General is not the auditor of a public body,

(a) the public body shall, on the request of the Auditor General, supply the Auditor General with a copy of all financial statements and reports relating to the public body;

(b) the auditor of the public body shall, on the request of the Auditor General, make available to the Auditor General, within a reasonable time, all working papers, reports and other documents in his possession relating to the public body; and

(c) the Auditor General may conduct examinations of the records and operations of the public body he considers necessary or advisable to carry out his duties under this act.

(2) Notwithstanding any other Act, the Auditor General

(a) shall be given access to the records of account and administration of any public body; and

(b) may require and receive from any officer or employee of a public body information reports and information necessary for the performance of his duties.

Eligibility As Auditor

17. Notwithstanding any other Act, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a Crown corporation, Crown agency or public body.

Transfer of Audit Duties

18. The Lieutenant Governor in Council may transfer to the Auditor General the duty imposed by any Act on the Comptroller General to conduct an audit.

Appendix B

Mission Statement

The formal mandate of the Auditor General has been prescribed by the Legislative Assembly in the *Auditor General Act*. Relevant Sections of the Act are contained in Appendix I to this Report.

Based on the requirements of that Act, and reflecting the concepts and practices that have evolved over time, a Mission Statement has been developed to concisely describe the role of the Auditor General, and the means employed to carry out this role.

MISSION STATEMENT

The Auditor General serves the citizens of the Province by providing independent opinions and evaluations on the financial and administrative management of the Government and its related entities in the public sector. As well, he promotes improvement in public sector accountability.

To fulfill his responsibilities, the Auditor General has established a professional office committed to the principles of objectivity, integrity and service to the public.

While this statement is purposely brief, amplification of its various aspects will help the reader better understand its message.

The phrase, "*...serves the citizens of the Province...*", denotes the concept of public service, and recognizes the breadth of the audience interested in the Auditor General's work, including Members of the Legislative Assembly, the Government and its administration, the taxpayer, and others seeking information about the financial and administrative affairs of the Government.

The statement continues, "*...by providing independent...*". This reflects the fact that the Auditor General is an officer of the Legislature. His independence from the Government of the day and the Public Service is essential to the effective and unbiased work of the Office.

The phrase, "*...opinions and evaluations on the financial and administrative management of the Government...*", describes the major responsibility of the Office of the Auditor General. The *Auditor General Act* requires the Auditor General to examine the accounts and records of the Government, and to express his opinion on the Government's annual financial statements. In this respect the Auditor General's role is like that of accounting firms who audit the books of private sector companies. Following the collection and spending of public funds, the Auditor General examines the Government's financial transactions and reports his findings to the Legislative Assembly. Like private sector auditors, he expresses his opinion on the financial information presented to him by the Government—the traditional "attest" audit function.

The Act also calls on the Auditor General to comment in an annual report to the Legislative Assembly on any matter arising from his work that he considers to be of interest to the Assembly. This may deal with such matters as the improper use of public funds, failure to comply with legislative and related authorities, expenditures not authorized by the Legislature, and other irregularities. It may also deal with his evaluations as to whether tax dollars have been economically and efficiently spent for the purposes intended.

The Statement continues, *"...and its related entities in the public sector."* This refers to the Auditor General's role with respect to provincial Crown corporations and other public bodies. For those public bodies of which he is the appointed auditor, the Auditor General's responsibilities roughly parallel those undertaken in the audit of the Government's accounts. For those public bodies audited by others, the Auditor General has an oversight role which responds to the varying needs of the Legislative Assembly.

The next sentence states, *"As well, he promotes improvement in public sector accountability."* It refers to the Auditor General's overall concern with disclosure and accountability throughout the public sector. In this regard, whether through his Annual Report, his dealings with the Public Accounts Committee of the Legislature, or his direct contact with public officials and administrators, the Auditor General actively furthers the concept of accountability.

The final phrase of the Mission Statement reads, *"...a professional office committed to the principles of objectivity, integrity and service to the public."* The concept of professionalism emphasized here implies adherence to a set of standards which are professionally recognized. Since its inception the Office of the Auditor General has functioned as a practicing office as defined by the Institute of Chartered Accountants of British Columbia, and has met all the requirements of that Institute associated with this status. Staff members of the Office are required to have either a professional accounting designation or special qualifications in other disciplines, or be pursuing studies toward a professional designation.

Appendix C

List of Internal Control Reviews Completed

1989 Annual Report

Property Purchase Tax System: Ministry of Finance and Corporate Relations

Long-Term Debt Accounting System: Ministry of Finance and Corporate Relations

Central Textbook Inventory System: Ministry of Education

Data Collection Phase of the Stumpage and Royalty Revenue System: Ministry of Forests

Provincial Police Services Contract Payment System: Ministry of Solicitor General

1988 Annual Report

Provincial Treasury Investment System: Ministry of Finance and Corporate Relations

Sewerage Assistance and Water Facilities Grants Payment System: Ministry of Municipal Affairs

Shelter Aid for Elderly Renters Grant Payment System: Ministry of Social Services and Housing

Small Business Enterprise Program Revenue System: Ministry of Forests and Lands

Vital Statistics Division Revenue System: Ministry of Health

1987 Annual Report

Review of Local Minor Purchase Orders and Emergency Purchase Orders

1986 Annual Report

Professional Service Contract Review

1982 Annual Report

Expenditure Review (Travel Expenses)

Appendix D

List of Value-for-Money Audits Completed

1989 Annual Report

Privatization:
- Introduction
- The Process
- Early Initiatives
- Highways
- British Columbia Enterprise Corporation Loans

Ministry of Health:
- Introduction
- Hospitals
- Medical Services Plan
- Continuing Care
- Public Health

1988 Annual Report

Ministry of Education:
- Funding
- Special Education
- Facilities
- Curriculum

Ministry of Energy, Mines and Petroleum Resources:
- Organization Structure
- Natural Gas Royalty Revenue
- Petroleum Resources Division
- Mineral Resources Division, Engineering and Inspection Branch

1987 Annual Report

Government Purchasing

Ministry of Attorney General:
- Corrections Branch
- Legal Services Branch
- Management of Buildings and Office Accommodation
- Management of the Financial Function

1986 Annual Report

Ministry of Lands, Parks and Housing:
- Crown Land Administration
- Crown Land Special Account
- Computerization
- Social Housing
- Parks and Outdoor Recreation
- Financial Management and Control

Passenger Vehicle Travel

1985 Annual Report

Ministry of Agriculture and Food:
- Strategic Direction and Accountability
- Financial Assistance
- Extension
- Financial Management and Control

Ministry Annual Reports

1982 Annual Report

Review of Internal Audit in the Government of British Columbia

1981 Annual Report

Ministry of Environment:
- Waste Management Program
- Financial Management and Control

Ministry of Forests:
- Financial Management and Control

Ministry of Health:
- Financial Management and Control

1980 Annual Report

Ministry of Human Resources:
- Income Assistance Program Financial Management and Control

Ministry of Education:
- Financial Management and Control

Ministry of Finance:
- Financial Management and Control

Ministry of Lands, Parks and Housing:
- Financial Management and Control

Appendix E

List of Special Audit Reports Issued

	Date Report Issued
Special Report on Expenditures of the Minister of Consumer and Corporate Affairs from 6 January 1981 to 31 March 1982	July 23, 1982
Special Report to the Legislative Assembly on Expenditures of the Ministry of Tourism	May 1, 1983
Second Special Report to the Legislative Assembly on the Expenditures of the Ministry of Tourism	July 18, 1983
Third Special Report to the Legislative Assembly on the Expenditures of the Ministry of Tourism	April 11, 1984
Special Report to the Legislative Assembly on the Allocation of Highway Construction Costs in the Fiscal Year Ended 31 March 1986	March 7, 1988

Appendix F

Public Bodies, of Which the Auditor General Was Not the Appointed Auditor, Whose Financial Statements Are Included in Volume III of the Public Accounts

British Columbia Buildings Corporation

British Columbia Ferry Corporation

British Columbia Enterprise Corporation

British Columbia Food Exhibitions Ltd.

British Columbia Housing Management Commission

British Columbia Hydro and Power Authority

British Columbia Lottery Corporation

B.C. Pavilion Corporation

British Columbia Petroleum Corporation
- Petroleum Corporation Fund
- Natural Gas Price Adjustment Fund

British Columbia Railway Company

British Columbia Steamship Company (1975) Ltd.

British Columbia Systems Corporation

British Columbia Transit

Discovery Foundation

Housing Corporation of British Columbia

Insurance Corporation of British Columbia

Pacific Coach Lines Limited

Science Council of British Columbia and Secretariat on Science, Research and Development

Appendix G

Sections A, B and C of the Public Accounts

The material which forms Appendix G is an excerpt from the Public Accounts of British Columbia for the fiscal year ended March 31, 1988.

SECTION A

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988 FINANCIAL STATEMENTS

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Statement of Comparison of Estimated Appropriations to Actual Expenditures .... A 22

Statement of Expenditure by Group Account Classification .... A 33

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Legislative Assembly
Province of British Columbia

AUDITOR GENERAL

8 Bastion Square
Victoria
British Columbia
V8V 1X4
Telephone: (604) 387-6803
Fax: (604) 387-1230

AUDITOR GENERAL'S REPORT

To the Legislative Assembly
of the Province of British Columbia
Parliament Buildings
Victoria, British Columbia

I have examined the balance sheet of the Government of the Province of British Columbia general fund, and special funds converted to special accounts on March 31, 1988, as at March 31, 1988, and the related statements of revenue and expenditure and changes in cash and temporary investments for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. I have received all the information and explanations I have required.

I report in accordance with section 7 of the *Auditor General Act*. In my opinion, these financial statements present fairly the financial position of the Government's general fund, and special funds converted to special accounts on March 31, 1988, as at March 31, 1988 and the results of their operations and the changes in their financial position for the year then ended in accordance with the stated accounting policies as set out in Note 1 to these financial statements applied on a basis consistent with that of the preceding year.

George L. Morfitt

George L. Morfitt, F.C.A.
Auditor General

Victoria, British Columbia
August 31, 1988

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988 BALANCE SHEET AS AT MARCH 31, 1988

		In Thousands	
	Note	1988	1987
ASSETS		$	$
Cash and temporary investments	2	116,351	109,878
Accounts receivable	3	811,647	789,632
Inventories	4	118,786	105,305
Investments in and amounts due from Crown corporations and agencies	5	1,004,058	1,040,263
Loans, advances and other investments	6	163,027	154,203
Mortgages receivable	7	322,719	299,593
Fiscal Agency loans	8	2,623,218	2,216,625
Other assets	9	166,687	121,732
		5,326,493	**4,837,231**
LIABILITIES AND NET EQUITY (DEFICIENCY)			
Liabilities:			
Accounts payable and accrued liabilities	10	992,795	896,328
Due to Crown corporations, agencies and funds	11	941,634	421,889
Deferred revenue	12	255,513	212,969
Public debt, issued for Government purposes	13	5,016,747	4,801,901
Public debt, to finance Fiscal Agency loans	14	2,623,218	2,216,625
		9,829,907	8,549,712
Net equity (deficiency)	15	(4,503,414)	(3,712,481)
		5,326,493	**4,837,231**
Fixed Assets	1		
Contingencies and Commitments	16		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Approved on behalf of the Ministry of Finance and Corporate Relations:

P.G.Halkett

P. G. HALKETT
A/Deputy Minister of Finance
and Corporate Relations

D. B. MARSON
Comptroller General

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988 STATEMENT OF REVENUE AND EXPENDITURE FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	In Thousands		
	1988		1987
	Estimates[2]	Actual	Actual
	$	$	$
REVENUE			
Taxation	5,343,000	5,744,305	4,861,505
Natural resources	918,000	1,222,958	657,591
Other	638,000	630,388	589,526
Contributions from Government enterprises	452,000	469,795	447,605
Contributions from the Federal Government	2,019,000	2,019,931	1,993,257
Gross revenue	9,370,000	10,087,377	8,549,484
Less: Transfer to Budget Stabilization Fund		(717,377)	
Net revenue	**9,370,000**	**9,370,000**	**8,549,484**
EXPENDITURE			
Health	2,918,900	2,997,293	2,860,564
Social services	1,663,700	1,610,382	1,512,430
Education	2,118,700	2,203,670	1,913,915
Transportation and communications	835,300	768,079	975,418
Natural resources, trade and industrial development	745,600	721,019	614,938
Protection of persons and property	476,500	480,842	453,257
Aid to local government	403,400	402,514	392,322
Debt servicing[1]	530,200	525,277	393,581
General government	167,600	177,496	195,564
Housing	81,400	64,362	101,902
Recreation and cultural services	82,800	71,230	66,658
Transfer of Lottery Fund Special Account balance to Budget Stabilization Fund	0	25,528	0
Other	195,900	113,241	318,102
Total expenditure	**10,220,000**	**10,160,933**	**9,798,651**
Net Operating Expenditure for the Year	**(850,000)**	**(790,933)**	**(1,249,167)**
NON-OPERATING TRANSACTIONS			
Valuation adjustment of investments in and amounts due from Crown corporations and agencies	0	0	88,447
Net Expenditure for the Year (note 15)	**(850,000)**	**(790,933)**	**(1,160,720)**

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[1] Debt servicing does not include interest of $248,461,000 (1987 — $233,364,000) on borrowings to finance Fiscal Agency loans as the interest revenue and expenditure are offsetting.

[2] Estimated amounts are as presented in the Estimates for this fiscal year. This presentation makes no attempt to include additional statutory or other expenditure appropriations. Such information is contained in the Statement of Comparison of Estimated Appropriations to Actual Expenditure (*See* A 22 to A 32).

The accompanying notes and supplementary statements are an integral part of these financial statements.

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988 STATEMENT OF CHANGES IN CASH AND TEMPORARY INVESTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	In Thousands			
	1988		1987	
	$		$	
OPERATING TRANSACTIONS				
Net operating expenditure for the year		(790,933)		(1,249,167)
Non-cash items included in net expenditure				
Accounts receivable (increases)	(22,015)		(97,448)	
Accounts payable increases	96,467		59,833	
Due to Crown corporations increases	519,745		114,180	
Public Debt increases	29,681		11,745	
Due from Crown corporations (increases) decreases	(3)		13,969	
Other under $10 million	(2,155)		3,998	
		621,720		106,277
Cash items applicable to future operations		(26,188)		(627)
Cash used for operations		(195,401)		(1,143,517)
INVESTMENT TRANSACTIONS				
Loans, advances and other investments (issues) repayments	(8,383)		27,320	
Mortgages receivable (issues)	(23,084)		(25,128)	
Divestment of (investment in):				
Crown corporations	36,208		(585,011)	
Other assets			1	
Cash derived from (used for) investments		4,741		(582,818)
Total financial requirements		(190,660)		(1,726,335)
FINANCING TRANSACTIONS				
Increase in public debt issues	602,596		2,007,019	
Less: Used for Fiscal Agency loans	(405,463)		(398,309)	
Cash derived from financing		197,133		1,608,710
Increase (decrease) in cash and temporary investments		6,473		(117,625)
Balance — Beginning of Year		109,878		227,503
Balance — End of Year		116,351		109,878

The accompanying notes and supplementary statements are an integral part of these financial statements.

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988 NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988

1. Significant Accounting Policies

(a) Reporting Entity

These financial statements include the transactions and balances of the General and Special Accounts known at March 31, 1988 as the General Fund. Separate combined financial statements of the Government are prepared which include the financial activities of the General Fund and the Special Funds which are together known as the Consolidated Revenue Fund. (*See* Section B of the Public Accounts.) There are also separate consolidated financial statements of the Government which include the financial activities of the Consolidated Revenue Fund and certain Crown corporations and agencies. (*See* Section C of the Public Accounts.)

For purposes of these financial statements the General and Special Accounts of the Government are presented as one General Fund, which is comprised of:

- General Accounts — include all transactions and balances of the Government not otherwise earmarked by legislative action, including the accounts of the British Columbia Liquor Distribution Branch, the Queen's Printer and the Purchasing Commission; and
- Special Accounts — these are statutory spending authorities for specific purposes with defined limits on total spending as established by the Legislature.

(b) Principles of Combination

The General Accounts are combined with the Special Accounts after adjusting them to conform with the accounting policies as described below. Inter-account revenue and expenditure transactions are eliminated upon combination.

(c) Basis of Accounting

The accrual basis of accounting is used which, for these financial statements, is specifically expressed as follows:

Revenue

All revenues are recorded on an accrual basis except where the accruals cannot be determined with a reasonable degree of certainty or where their estimation is impracticable. The exceptions, which normally relate to certain payments to the Province under the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977*, are recorded on a cash basis. Revenues from Crown corporations are recognized when cash transfers are received or when dividends are declared. Revenue, as specified by the Lieutenant Governor in Council, may be paid into the Budget Stabilization Fund by the Minister of Finance and Corporate Relations, to assist in stabilizing the operating revenues of the Government.

Expenditure

All expenditures, including the cost of fixed assets, are recorded for goods and services received during the year. Grants and contributions (which include forgivable loans) are recorded as expenditure when disbursement of the funds has been authorized, with the exception that social assistance payments during a given month to meet the needs of recipients in an ensuing month are recorded as expenditure in the period to which the payments apply. Lottery Fund Special Account balances may, if authorized by the Lieutenant Governor in Council, be paid into the Budget Stabilization Fund.

Recoveries of expenditure may be recorded as a credit to the appropriate expenditure account when:

(i) they can be specifically identified with the expenditure transactions and payment has actually been made from an appropriation;
(ii) provision for them has been approved through the Estimates or by Treasury Board; and
(iii) the expenditure to which they relate was incurred in the same fiscal year.

Assets

All assets are recorded to the extent that they represent cash and claims upon outside parties or items held for resale to outside parties as a result of events and transactions prior to the year-end. Rental payments for leases which transfer the benefits and risks incident to the ownership of certain assets, not including special purpose buildings, are reported as expenditures at the dates of inception of the leases.

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988 NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

1. Significant Accounting Policies — Continued

Liabilities

All liabilities are recorded to the extent that they represent claims payable to parties outside this reporting entity as a result of events and transactions prior to the year-end.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year-end and foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts which specify the rate of exchange. Adjustments to revenue or expenditure transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long-term, fixed-term monetary assets and liabilities are reported as a deferred charge and amortized over the remaining terms of the related items on a straight line basis.

Non-monetary assets and liabilities are translated at historical rates of exchange.

(d) SPECIFIC POLICIES

Cash and Temporary Investments

Cash balances are shown after deducting outstanding cheques issued prior to the year-end. Cheques issued subsequent to the year-end relating to the previous year are included in accounts payable.

Temporary investments include short-term investments recorded at the lower of cost or market value.

Temporary investments consist mainly of units in the Province of British Columbia Pooled Investment Portfolios. Units are carried at the lower of cost of acquisition adjusted by income attributed to the units, or market value. Income attributed to the units represents the unitholders' share of interest earned by the Portfolio and is realizable by unitholders upon the sale of units.

Accounts Receivable

All amounts receivable (including any trade receivables from Crown corporations and agencies) at the year-end for work performed, goods supplied or services rendered are recorded as revenue of the fiscal year. Provision is made where collectibility is considered doubtful.

Inventories

Inventories comprise items held for resale and are recorded at the lower of cost or net realizable value. Inventories of supplies are charged to the respective programs when the cost is incurred.

Property under development, which will eventually be sold to outside parties, is recorded at the lower of cost or net realizable value.

Investments In and Amounts Due from Crown Corporations and Agencies

Investments in and amounts due from Crown corporations and agencies represent long-term investments and amounts due, other than trade receivables, and are recorded at cost unless significant prolonged impairment in value has occurred, in which case they are written down to recognize this loss in value. If, in periods subsequent to recognizing this impairment, the value of the investment is restored, the investment is written up to the lesser of restored value or original cost.

Loans, Advances and Other Investments

Loans, advances and other investments are recorded at cost less adjustment for any prolonged impairment in value.

Mortgages Receivable

Mortgages receivable are secured by real estate and are repayable over periods ranging up to thirty years. Provision is made where collectibility is considered doubtful.

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988 NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

1. Significant Accounting Policies — Continued

Fiscal Agency Loans

Fiscal Agency loans consist of loans made to government bodies which have been financed by borrowings made by the Minister of Finance and Corporate Relations, in his capacity as fiscal agent, on behalf of government bodies in accordance with the *Financial Administration Act* (S.B.C. 1981, chap. 15). These loans are recorded at maturity value less unamortized discounts and sinking fund balances. Discounts are amortized on an effective yield basis.

Other Assets

Other assets include prepaid program costs. Prepaid program costs represent expenditures made during the fiscal year for work to be performed, goods to be supplied, services to be rendered or contractual obligations to be fulfilled by outside parties in a subsequent fiscal year. These costs also include inventories of operating materials held in the Purchasing Commission and Queen's Printer warehouses pending distributions in a subsequent fiscal year.

Also included in other assets are certain deferred charges.

Fixed Assets

Disbursements for fixed assets are recorded as expenditures in the year the assets are received. Consistent with the reporting of fixed assets as expenditures, highways, bridges, wharves, ferries and ferry landings, buildings, office equipment, furniture, automobiles and Crown land comprised of parks, forests and all other publicly held land in the Province, not including property under development, are recorded at a nominal value of $1.

Accounts Payable and Accrued Liabilities

All amounts payable (including trade payables to Crown corporations and agencies) for work performed, goods supplied, services known to have been rendered or for charges incurred in accordance with the terms of a contract are recorded as part of the expenditure of the fiscal year.

Due to Crown Corporations, Agencies and Funds

Amounts due to Crown corporations, agencies and funds represent liabilities incurred, other than trade payables, which are payable in the following year.

Deferred Revenue

Deferred revenue represents amounts received or receivable prior to the year-end relating to revenue that will be earned in subsequent fiscal years.

Public Debt

Public debt represents direct debt obligations for the purposes of the Government of British Columbia and the Fiscal Agency loans. These obligations are recorded at principal less unamortized discounts and sinking fund balances where applicable. Discounts are amortized on an effective yield basis.

Guaranteed Debt

Guaranteed debt represents that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government, under the authority of a statute, as to net principal or redemption provisions and accrued interest or dividends outstanding.

Commitments

Commitments represent future obligations of the Government for capital contracts and extraordinary program commitments, to the extent of contracts and agreements in place at the year-end.

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988 NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

2. Cash and Temporary Investments

	In Thousands	
	1988	1987
	$	$
Cash (cheques issued in excess of funds on deposit)	(160,497)	(179,752)
Temporary investments		
Units in Province of British Columbia Pooled Investment Portfolios[1]	223,409	280,960
Other	53,439	8,670
	116,351	109,878

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[1] Established pursuant to the *Financial Administration Act*, section 36 (9) (a).

Other than statutory requirements or administrative policies which specifically provide for the maintenance of separate bank accounts, the Government's cash balances and temporary investments are all held in General Fund bank and investment accounts.

3. Accounts Receivable

	In Thousands	
	1988	1987
	$	$
Taxes receivable	429,616	408,662
Local government bodies	4,904	1,869
Government of Canada	69,034	206,343
Ministerial accounts receivable	298,148	169,433
Accrued interest	59,745	50,682
Crown corporations and agencies	20,981	22,836
	882,428	859,825
Less provision for doubtful accounts	(70,781)	(70,193)
	811,647	789,632

4. Inventories

	In Thousands	
	1988	1987
	$	$
Property under development	53,118	50,357
British Columbia Liquor Distribution Branch	58,986	52,732
Ministerial inventories	6,682	2,216
	118,786	105,305

5. Investments In and Amounts Due From Crown Corporations and Agencies

	In Thousands			
	1988			1987
	Investments	Amounts Due	Total	Total
	$	$	$	$
British Columbia Buildings Corporation		55,758	55,758	45,744
British Columbia Enterprise Corporation	305,020	19,733	324,753	324,834
British Columbia Ferry Corporation	6,851		6,851	6,851
British Columbia Food Exhibitions Ltd.[1]				
British Columbia Hydro and Power Authority		8,087	8,087	8,084
B.C. Pavilion Corporation	162,008		162,008	162,008
British Columbia Petroleum Corporation		85,905	85,905	85,905
British Columbia Railway Company	257,689	20,542	278,231	267,924
British Columbia Regional Hospital Districts Financing Authority		12,000	12,000	12,000
British Columbia School Districts Capital Financing Authority		36,500	36,500	44,088
British Columbia Steamship Company (1975) Ltd.[1]				
British Columbia Transit				49,000
Discovery Enterprises Inc.		7,032	7,032	6,100
Housing Corporation of British Columbia[1]				
Pacific Coach Lines Limited[1]				
Provincial Rental Housing Corporation	634	24,377	25,011	26,223
Workers' Compensation Board of British Columbia		1,922	1,922	1,502
	732,202	271,856	1,004,058	1,040,263

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[1] The Province's investment is less than one thousand dollars for each of these corporations.

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

5. Investments In and Amounts Due From Crown Corporations and Agencies—Continued

(a) Definitions

The entire issued capital stock of each of the Crown corporations recorded under investments is owned by the Province. A number of Crown corporations and agencies exist for which the Province has no recorded investment.

Amounts due represent long-term notes and debentures of Crown corporations and agencies held by the Province, in addition to recoverable advances due to the Province.

(b) British Columbia Petroleum Corporation (the Corporation)

Prior to July 1, 1985, the Corporation's retained earnings were recorded as due to the Province because these amounts were considered to have been collected in lieu of other forms of taxation. Subsequent to the *Natural Gas Price Act*, the Corporation is no longer a revenue collecting agent of the Province. Any transfer of funds to the Province will be applied to reduce the amount due from the Corporation.

(c) Pacific Coach Line Limited (the Company)

Effective March 31, 1984, the operations of Pacific Coach Lines Limited ceased and wind-up of the Company commenced. The wind-up of the Company will be completed following disposal of the remaining real estate assets. The Ministry of Municipal Affairs assumed responsibility for this Company effective September, 1986.

6. Loans, Advances and Other Investments

	In Thousands	
	1988	1987
	$	$
Low Interest Loan Agreement Revolving Fund Act	31,845	32,596
Homeowner Assistance Act	17,393	27,400
Ministry of Lands, Parks and Housing Act	12,467	25,912
Industrial Development Incentive Act	40,672	15,960
Industrial Development Fund Act	22,932	20,235
Crop Insurance Stabilization	15,200	16,500
Agricultural Land Development Act	16,047	16,449
Downtown Revitalization	17,568	16,312
Other	20,518	14,894
	194,642	186,258
Less provision for doubtful accounts	(31,615)	(32,055)
	163,027	154,203

7. Mortgages Receivable

	In Thousands	
	1988	1987
	$	$
Crown Land — Pursuant to the *Ministry of Lands, Parks and Housing Act*	31,013	32,147
Provincial Home Acquisition — Pursuant to the *Provincial Home Acquisition Act, Home Purchase Assistance Act*, and the *Home Conversion and Leasehold Loan Act*	306,376	281,898
Other	1,140	1,400
	338,529	315,445
Less provision for doubtful accounts	(15,810)	(15,852)
	322,719	299,593

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

8. Fiscal Agency Loans

	In Thousands	
	1988	1987
	$	$
British Columbia Assessment Authority	4,331	4,503
British Columbia Buildings Corporation	154,693	123,922
British Columbia Educational Institutions Capital Financing Authority	19,385	22,430
British Columbia Enterprise Corporation	88,907	15,491
British Columbia Regional Hospital Districts Financing Authority	15,467	
British Columbia Housing and Employment Development Financing Authority		24,364
British Columbia Hydro and Power Authority	1,218,212	898,602
British Columbia Railway Company	73,939	74,110
British Columbia Steamship Company (1975) Ltd.	8,572	3,111
British Columbia Systems Corporation	24,570	20,325
British Columbia Transit	835,028	781,845
Capital Project Certificate of Approval Program	90,021	63,339
Expo 86 Corporation		98,643
Greater Vancouver Sewerage and Drainage District	29,095	29,673
Greater Vancouver Water District	19,750	19,782
Improvement Districts	746	
University of British Columbia	40,502	36,485
	2,623,218	2,216,625

9. Other Assets

	In Thousands	
	1988	1987
Prepaid Program Costs	$	$
Guaranteed Available Income for Need Act	65,708	64,302
Medical Services Commission of British Columbia	37,755	26,150
Other ministerial prepayments	45,381	13,650
Unamortized issue costs of Public Debt	17,843	17,630
	166,687	121,732

10. Accounts Payable and Accrued Liabilities

	In Thousands	
	1988	1987
	$	$
Ministry trade accounts and other liabilities	567,936	517,237
Accrued interest on public debt	212,875	182,583
Accrued employee leave entitlements	130,835	101,891
Forest Act, section 88	49,700	64,387
Government of Canada	31,449	30,230
	992,795	896,328

The total cost of the early retirement incentive plan was $87.8 million, of which $26.6 million is included under accrued employee leave entitlements.

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

11. Due to Crown Corporations, Agencies and Funds

	In Thousands	
	1988	1987
	$	$
Amounts due to Special Funds	742,905	
Amounts due to Trust Funds	16,423	183,587
British Columbia Colleges and Institutes	11,923	11,751
British Columbia Enterprise Corporation	1,428	5,775
British Columbia Housing Management Commission	25	
British Columbia Transit		3,584
Expo 86 Corporation		60,188
Medical Services Commission of British Columbia	161,105	148,548
Simon Fraser University	1,766	2,310
University of British Columbia	4,942	4,961
University of Victoria	1,117	1,185
	941,634	421,889

12. Deferred Revenue

	In Thousands	
	1988	1987
	$	$
Motor vehicle licences and permits	85,322	74,585
Water rentals and recording fees	64,127	54,049
Petroleum, natural gas and minerals, leases and fees	23,569	23,567
Canada Assistance Plan	32,839	32,098
Miscellaneous	49,656	28,670
	255,513	212,969

13. Public Debt Issued for Government Purposes

	In Thousands	
	1988	1987
Short-term promissory notes	$	$
Payable in Canadian currency	200,220	357,625
Payable in United States currency (U.S. $5,500; 1987 U.S. $178,586)	7,174	235,797
	207,394	593,422
Less: Unamortized discount	(4,839)	(8,824)
	202,555	584,598
91-day Treasury Bills	780,000	650,000
Less: Unamortized discount	(8,352)	(5,289)
	771,648	644,711
Notes and bonds		
Payable in Canadian currency	4,174,467	3,632,322
Payable in United States currency (U.S. $165,713; 1987 U.S. $166,381)	204,506	217,144
	4,378,973	3,849,466
Less: Unamortized discount	(179,939)	(187,633)
	4,199,034	3,661,833
Less: Sinking fund balances	(156,490)	(89,241)
	4,042,544	3,572,592
	5,016,747	4,801,901

Short-term promissory notes payable in U.S. currency are fully hedged to mature in Canadian funds. Notes outstanding at March 31, 1988, mature at various dates to December 15, 1988, at an annual average interest rate of 8.91%. During the year $4.0 billion in notes were issued at interest rates which varied between 6.80% - 10.50%.

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

13. Public Debt Issued for Government Purposes — Continued

Treasury bills outstanding at March 31, 1988, mature at various dates to June 29, 1988, at an annual average interest rate of 8.48%. During the year, $2.9 billion in Treasury bills were issued at interest rates which varied between 6.87%-9.66%.

The Province had 137 series of notes and bonds outstanding at March 31, 1988.

Included in notes and bonds payable in Canadian currency are Japanese Yen notes totalling 31.1 billion Yen (1987: 31.1 billion Yen) which have been fully hedged to $220.7 million Canadian (1987: $220.7 million Canadian) through currency exchange agreements.

Included in notes and bonds payable in U.S. currency are Swiss Franc notes totalling 325 million Francs (1987: 325 million Francs) which have been fully hedged to $149 million U.S. (1987: $149 million U.S.) through a currency exchange agreement.

The following notes and bonds were issued by the Province in Canadian currency during the year ended March 31, 1988.

Date of Maturity	Series	Coupon Rate %	Principal In thousands $
August 21, 1989	PRT	8.00	30,000
August 1, 1990	P-BH	8.08	6,000
November 1, 1990	P-BC	7.91	10,500
September 15, 1991	P-C	3.75	3,000
November 1, 1991	P-HJ	7.15	5,000
November 10, 1991	P-YG	7.14	9,101
February 10, 1992	P-HK	6.75	4,928
March 1, 1992	P-YH	6.90	8,000
May 10, 1992	P-YJ	7.38	7,014
May 21, 1992	P-D	4.00	1,000
June 15, 1992	P-E	4.00	1,000
July 2, 1992	P-BL	7.45	7,000
August 10, 1992	P-YK	7.49	6,260
August 10, 1992	P-HN	7.49	2,500
September 7, 1992	P-YL	7.50	5,000
September 15, 1992	P-F	4.00	1,500
September 15, 1992	P-MD	5.00	18,724
September 15, 1992	P-N	5.00	10,000
October 10, 1992	P-YM	7.49	5,000
November 10, 1992	P-YN	7.51	8,907
December 8, 1992	P-YO	7.38	8,199
January 10, 1993	P-YP	7.26	4,627
March 3, 1993	BCEC-7	9.25	117,347
March 8, 1993	P-HQ	7.23	6,500
May 9, 1993	P-YQ	7.34	10,000
June 7, 1993	P-HR	7.48	6,000
October 29, 1993	BCJY-7	10.67	12,500
November 25, 1997	PRV	10.25	122,022
April 9, 1998	PRS	7.75	300,000

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

	In Thousands	
	Canadian Funds $	U.S. Funds $
1989	221,448	687
1990	212,375	149,536
1991	758,550	687
1992	641,814	687
1993	362,494	687

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

14. Public Debt to Finance Fiscal Agency Loans

	In Thousands	
	1988	1987
	$	$
Short-term promissory notes		
Payable in Canadian currency	972,984	660,602
Payable in United States currency (U.S. $48,047; 1987 - U.S. $261,727)	59,970	345,899
	1,032,954	1,006,501
Less: Unamortized discount	(12,193)	(13,960)
	1,020,761	992,541
Less: Sinking fund balance		(16,478)
	1,020,761	976,063
Notes, bonds and debentures payable in Canadian currency	1,659,608	1,278,578
Less: Unamortized discount	(14,094)	(14,058)
	1,645,514	1,264,520
Less: Sinking fund balances	(43,057)	(23,958)
	1,602,457	1,240,562
	2,623,218	2,216,625

Short-term promissory notes payable in U.S. currency are hedged to mature in Canadian funds or are effectively hedged by fully offsetting U.S. dollar fiscal agency loans receivable. Notes outstanding at March 31, 1987, mature at various dates to August 12, 1988, at an annual average interest rate of 8.45%. During the year, $5.8 billion in notes were issued at interest rates which varied between 6.74%-9.83%.

The Province had 43 issues of notes and debentures outstanding at March 31, 1988.

Included in notes, bonds and debentures payable in Canadian currency are Japanese Yen notes totalling 13.4 billion Yen (1987: 13.4 billion Yen) which have been fully hedged to $82.9 million Canadian (1987: $82.9 million) through foreign currency exchange agreements.

The following notes, bonds and debentures were issued by the Province in Canadian currency during the year ended March 31, 1988.

Date of Maturity	Series	Coupon Rate %	Principal In thousands $
March 3, 1993	BCEC-7	9.25	32,653
November 25, 1997	PRV	10.25	152,978
April 10, 2007	BCCP-18	9.12	25,055
May 8, 2007	BCCP-19	9.13	59,286
June 10, 2007	BCCP-20	9.88	68,932
July 10, 2007	BCCP-21	9.83	22,187
August 10, 2007	BCCP-22	9.72	14,430
September 1, 2007	BCCP-23	10.42	4,763
December 10, 2007	PRW	10.14	746

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

	In Thousands Canadian Funds $
1989	78,780
1990	322,343
1991	49,684
1992	171,358
1993	44,341

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988 NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

15. Net Equity (Deficiency)

	In Thousands	
	1988	1987
	$	$
Net equity (deficiency) General Fund — beginning of year	(3,863,263)	(2,802,074)
Net equity (deficiency) Special Funds — beginning of year	150,782	250,313
Total net equity (deficiency)	(3,712,481)	(2,551,761)
Net expenditure of the General Fund, and Special Funds converted to Special Accounts on March 31, 1988, for the year	(790,933)	(1,160,720)
Net equity (deficiency) — end of year	(4,503,414)	(3,712,481)

16. Contingencies and Commitments

(a) Guaranteed debt

Guaranteed debt as at March 31, 1988, totalled $9.9 billion. (1987 — $10.5 billion). Included in guaranteed debt is that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government under the authority of a statute as to net principal or redemption provisions and accrued interest or dividends outstanding. *See* Statement of Guaranteed Debt on A 34 for details.

(b) Contingent liabilities

(i) Pending litigation

The Government is a defendant in legal actions which may give rise to future liabilities. Because the outcome of the litigation is uncertain, no amount has been recorded in these financial statements.

The Government has a contingent liability in respect of the following summary of cases where the estimated or known claim is or exceeds $100,000:

- a number of airline companies are challenging the Government's authority to tax the fuel used in their operations and to collect sales tax on aircraft; the amount in issue exceeds $30 million;
- claims of $2.5 million for the alleged negligence of ambulance drivers;
- claims of $2 million and $2.5 million have been made regarding motor vehicle accidents;
- claims of $2 million and $2.3 million have been made regarding construction disputes;
- claims of $2.5 million for hospital insurance;
- claims of $35 million against assessments for social services tax;
- various claims totalling $9.2 million against assessments for motive fuel, hotel room, logging, mining, and corporation capital taxes; and
- various legal actions totalling $18.5 million (each between $100,000 and $2 million) representing claims of damages to persons and property or other miscellaneous claims.

(ii) Other contingent liabilities

The Government also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Where indemnities are for explicit quantifiable loans, the amounts are included in the statement of guaranteed debt. Because all other amounts are uncertain, no liability for them has been recorded in these financial statements.

(c) Commitments

At the end of each year Government has a number of general commitments outstanding for ongoing programs and operations. Such future expenditures are charged to the appropriation in the year in which the work or service is performed. Commitments for capital contracts totalled approximately $126 million (1987 — $125 million), and commitments for extraordinary programs totalled approximately $624 million (1987 — $535 million).

(d) Superannuation and pension actuarial valuations

(i) The Government has statutory responsibilities, in the event of a deficiency existing between the money available for payment of superannuation allowances and the amounts necessary to meet the payment of these allowances equal to:

- the amount of the deficiency in the case of the Public Service Superannuation Fund; and
- the amount specified by the Lieutenant Governor in Council in the case of the College Pension Fund.

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1988

16. Contingencies and Commitments—Continued

(ii) The funds administered by the Superannuation Commission require that periodic actuarial valuations be performed for the purpose of assessing the adequacy of contribution rates and the financial position of the funds. The reporting of an unfunded liability by the actuary indicates that a deficiency of the funds may arise in the future if the actions recommended by the actuary are not followed.

The unfunded liabilities as shown in the latest actuarial valuations for the above funds are provided for information purposes:

	In Thousands	
	Public Service Superannuation as at March 31, 1987	College Pension as at August 31, 1985
	$	$
Total Actuarial Liability	4,480,089	310,126
Less Assets:		
Fund	(2,339,150)	(130,113)
Present value of future contributions	(1,684,877)	(119,122)
Unfunded Liability	456,062	60,891

See Section G of the Public Accounts for further details of these plans.

17. Trust Funds

Amounts held and administered by the Government at the end of the fiscal year were comprised of the following:

	In Thousands	
	1988	1987
	$	$
Superannuation, Pension and Long-term Disability Funds[1] — administered by the Superannuation Commission	9,479,856	8,387,393
Sinking Funds[1,2] — administered by the Provincial Treasury	3,107,878	2,990,284
Investment Funds of Crown Corporations and Agencies — administered by the Provincial Treasury	245,275	190,574
Public Trustee and Official Administrators — administered by government officials	255,284	237,549
Supreme and County Court Rules (Suitors' Funds) — administered by the Courts	75,316	73,085
Investment Funds of Workers' Compensation Board[1] — administered by the Workers' Compensation Board	2,718,955	2,546,619
Other Trust Funds — administered by various government officials	60,553	44,746
	15,943,117	14,470,250

Trust funds include amounts held and administered in trust, over which the Government has no power of appropriation.

Cash and investments of the Trust Funds are managed or held by Provincial Treasury, Ministry of Finance and Corporate Relations.

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[1] *See* Volume III of the Public Accounts for the latest audited financial statements of Superannuation and Pension Funds, the Workers' Compensation Board and most entities whose sinking funds are administered by Provincial Treasury.

[2] Sinking funds include investments held by Financing Authorities (which have essentially the same purpose as sinking funds) and the sinking funds relating to Public Debt as disclosed in Notes 13 and 14 of these financial statements.

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988 NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

18. Subsequent events

(a) Privatization

In October, 1987, the Government announced a program to privatize certain of its operations. The following privatization transactions have occurred since March 31, 1988:

- False Creek lands were sold by British Columbia Enterprise Corporation on April 27, 1988, for $145,010,000. This amount was distributed to the Province as the shareholder pursuant to a resolution of the Directors by payment of $50,000,000 cash and assignment of financial instruments. This represented a $5,352,140 dividend to the Privatization Benefits Fund and $139,657,860 return of contributed surplus to the Province.
- Various B.C. Hydro assets have been sold including the mainland gas division sale for $785 million announced on July 20, 1988. Upon finalization, the gain on the sale will be paid over to the Province in the form of a dividend to the Privatization Benefits Fund.
- The Government is entering into agreements to dispose of certain assets and undertakings related to existing highways maintenance operations. Proceeds from the sale of fixed assets of the Government will represent revenue to the Province while the ongoing maintenance costs will be restricted, in future, to contract payments rather than a combination of salaries, operating costs and fixed assets acquisitions.

(b) *Knowledge Network of the West Communications Authority*

Pursuant to the *Open Learning Agency Act* (S.B.C. 1987, chap. 62, sec. 17 (2)) and Order-in-Council 25-1988, this corporation has been dissolved and all property and rights transferred to and vested in the Open Learning Agency on April 1, 1988. The new agency is to use open learning methods to provide educational programs and services and will develop and promote open learning education. A portion of its programs and services will be those of the former Knowledge Network.

(c) *Medical Services Commission of British Columbia (the Commission)*

Until April 1, 1988, all premiums under the Medical Services Plan (the Plan) were remitted to the Commission, with any deficiency in the funds to meet the necessary expenditures to be paid out of the Consolidated Revenue Fund. After that date, amendments to the *Medical Service Act Regulations*, approved by Order-in-Council dated March 25, 1988, require that premiums under the Medical Services Plan now be remitted to the Minister of Finance and Corporate Relations. Money is now to be paid out of the Consolidated Revenue Fund of the Province of British Columbia to meet all the needed expenditures for the operation of the Plan.

19. Comparatives

Certain of the comparative figures for the previous year have been reclassified to conform with the current year's presentation. These reclassifications have had no effect on the operating results or fund balances as previously reported.

Balances in specified Special Funds were transferred to the General Fund by the *Special Accounts Appropriation and Control Act*. This Act transferred, on March 31, 1988, all assets and liabilities of the Funds into Special Accounts within the General Fund of the Consolidated Revenue Fund. The General Fund balance at March 31, 1988, includes assets and liabilities previously separated into the Special Fund Balance Sheet accounts. The 1987/88 revenues and expenditures of the transferred Special Funds are combined with the General Fund operating results in these financial statements. Comparative figures for prior years are therefore restated to include these former Special Fund amounts. In future these statements will be called General Fund Financial Statements. Concurrent with this restructuring of the former Special Funds, the *Privatization Benefits Fund Act* and *Budget Stabilization Fund Act* brought two new Special Funds into existence which will not be included in these statements.

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988
STATEMENT OF REVENUE BY SOURCE
COMPARISON OF ESTIMATES TO ACTUAL
FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	In Thousands		
	1988		1987
	Estimated	Actual	Actual
Taxation Revenue	$	$	$
Personal income	2,562,000	2,789,965	2,248,096
Corporation income	387,000	473,407	280,647
Social service	1,393,000	1,463,087	1,540,776
Gasoline	360,000	380,889	317,884
Motive fuel use	60,000	68,595	55,513
Tobacco	223,000	227,795	212,015
Property purchase	168,000	140,130	669
Corporation capital	49,000	56,761	87,205
Property (rural areas)	41,000	42,741	35,799
Insurance premium	58,000	54,215	34,681
Hotel room	35,000	40,028	41,484
Horse racing	7,000	6,682	6,720
Succession and Gift	0	10	16
Total Taxation Revenue	**5,343,000**	**5,744,305**	**4,861,505**
Natural Resource Revenue			
Petroleum and Natural Gas			
Natural gas royalties	62,000	53,665	57,215
Permits and fees	67,000	92,595	68,093
Petroleum royalties	50,000	51,851	44,958
	179,000	198,111	170,266
Minerals			
Mining tax	500	792	445
Mineral resource tax	2,900	10,418	8,016
Mineral land tax	12,000	12,215	16,507
Coal, minerals and metals royalties	16,700	22,795	24,087
Miscellaneous mining receipts	7,900	7,366	6,530
	40,000	53,586	55,585
Forests			
Logging tax	7,000	31,531	8,841
Timber sales	73,000	350,506	103,380
Small Business Enterprise Special Account	21,500	47,227	28,972
Timber royalties	14,000	26,731	13,133
Lumber export tax	350,000	278,999	21,268
Forest scaling fees	2,500	3,901	4,231
Miscellaneous forests receipts	6,000	5,686	5,481
	474,000	744,581	185,306
Other			
Water rentals and recording fees	212,000	214,971	235,643
Wildlife Act — fees and licences	13,000	11,709	10,791
	225,000	226,680	246,434
Total Natural Resource Revenue	**918,000**	**1,222,958**	**657,591**
Other Revenue			
Sales and services			
Lottery Fund Special Account	175,000	165,064	160,706
Farm Income Assurance Special Account	28,000	12,076	15,972
Land registry fees	15,000	17,661	37,102
Real estate earnings of the Crown Land Special Account	22,400	28,676	25,202
Coquihalla highways tolls	14,000	15,022	11,061
Motor vehicle lien and search fees	7,200	7,060	6,734
Ambulance service	8,000	7,314	8,298
Sheriff's fees	1,300	1,173	1,142
Property tax collection fees	2,500	2,813	2,517
Vital statistics fees	3,000	3,022	2,861
Hearing aid equipment	2,600	3,532	2,408
Sales of maps and airphotos	500	530	447
Miscellaneous sales and services	7,500	8,533	7,424
	287,000	272,476	281,874

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988 STATEMENT OF REVENUE BY SOURCE COMPARISON OF ESTIMATES TO ACTUAL FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

	In Thousands		
	1988		1987
	Estimated	Actual	Actual
Licences and permits	$	$	$
Motor vehicle licences and permits	149,000	136,821	129,030
Liquor Licencing Branch — permits and fees	17,000	18,477	19,273
Companies Branch	8,600	11,971	8,811
Safety inspection fees	6,700	7,532	6,698
Filing fees — Court Services	9,700	3,757	3,852
Camp-site permits and park use	5,000	4,348	3,769
Fire Ser[illegible] Act — fees, etc.	4,000	5,073	4,874
Insurance, brokers and real estate	2,900	4,242	2,585
Agricultural licences	800	702	887
Trade and dealer licences	300	270	248
Mobile home registry	600	692	536
Miscellaneous licences and permits	3,400	5,587	2,844
	208,000	199,472	183,407
Interest from investments	62,000	68,355	53,169
Miscellaneous			
Fines and penalties	24,000	24,409	17,878
Maintenance of children	17,200	16,535	14,101
Other maintenance receipts	1,600	1,207	1,357
Insurance claim receipts	9,700	11,773	10,622
Municipal share of joint-service programs	3,500	4,595	2,505
Other miscellaneous	25,000	31,566	24,613
	81,000	90,085	71,076
Total Other Revenue	**638,000**	**630,388**	**589,526**
Contributions from Government Enterprises			
Liquor Distribution Branch — net income	432,000	425,040	424,787
British Columbia Railway Company — dividend	10,000	20,615	10,307
British Columbia Ferry Corporation — dividend	0	1,175	9,866
British Columbia Buildings Corporation — dividend	10,000	22,965	2,645
Total Contributions from Government Enterprises	**452,000**	**469,795**	**447,605**
Contributions from the Federal Government			
Established Programs Financing	1,228,000	1,215,270	1,205,263
Canada Assistance Plan	629,000	630,958	611,267
National Training Act	41,000	38,732	42,292
Economic development	42,700	35,759	22,627
Transportation and highways	15,900	17,084	15,378
Public Utilities Income Tax Transfer Act	3,000	10,026	12
Statutory subsidies	2,500	2,516	2,516
Reciprocal Taxation Agreement	19,500	24,091	21,097
Other payments	37,400	45,495	72,445
Fiscal Stabilization Program	0	0	360
Total Contributions from the Federal Government	**2,019,000**	**2,019,931**	**1,993,257**
Gross Revenue	**9,370,000**	**10,087,377**	**8,549,484**
Less transfer to Budget Stabilization Fund		(717,377)	
Net Revenue	**9,370,000**	**9,370,000**	**8,549,484**

Revenue by source is reported after the deduction of amounts considered uncollectible. These amounts totalled $7,982,082 in 1987/88 and were comprised of reductions of Taxation $6,182,192, Natural Resources $7,740 and Other Revenue $1,752,150.

Personal and Corporation income tax revenues are recorded after reduction for tax credits of $6,590,549 and $45,415,389 respectively. The types of tax credits reducing Provincial income tax revenues are for foreign taxes, logging taxes, small business employment, venture capital, political contributions, Housing and Employment Development bond interest, low income tax rebates and royalty tax rebates.

Petroleum and Natural Gas Permits and Fees are net of offsets allowed under section 68 of the *Petroleum and Natural Gas Act* of $2,049,000.

Timber sales are net of stumpage offsets allowed under section 88 of the *Forest Act* of $103,634,000 (Estimates $105,730,000).

The British Columbia Liquor Distribution Branch revenue is the net income of the Branch after adjusting for the difference in the accounting policies of the Branch from those of the Government. Revenue of $425,040,000 is comprised of gross revenue of $1,063,852,000 less cost of merchandise sold and operating expenses of $640,556,000 and an accounting policy adjustment of $1,744,000 for the decrease in value of fixed assets. (Refer to Section F of the Public Accounts for complete financial statements of the Branch).

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988

STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1988

Vote No.	Description	Total Appropriations				
		Estimated for the 12 Months Ending March 31, 1988	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
	Legislation	$	$	$	$	$
1	Legislation	14,201,820				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, sec. 64)		1,520,569	15,722,389	15,722,389	
		14,201,820	**1,520,569**	**15,722,389**	**15,722,389**	
	Auditor General					
2	Auditor General	4,465,920				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 20(3))		24,611	4,490,531	4,490,531	
		4,465,920	**24,611**	**4,490,531**	**4,490,531**	
	Ombudsman					
3	Ombudsman	**2,493,970**		**2,493,970**	**2,459,213**	**34,757**
	Office of the Premier					
4	Office of the Premier	2,733,090		2,733,090	2,689,882	43,208
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from Ministry of Intergovernmental Relations (Vote 45)		859,478	859,478	777,922	81,556
	—Transfer from Ministry of Provincial Secretary and Government Services (Vote 53)		3,684,000	3,684,000	3,330,476	353,524
		2,733,090	**4,543,478**	**7,276,568**	**6,798,280**	**478,288**
	Ministry of Advanced Education and Job Training					
5	Minister's Office	184,709		184,709	177,173	7,536
6	Ministry Operations	695,466,020				
	Supplement — Special Warrant No. 3		10,000,000	705,466,020	697,581,613	7,884,407
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from Ministry of Economic Development (Vote 18)		5,984,900	5,984,900	5,967,188	17,712
	—Transfer from Ministry of Economic Development (Vote 19)		4,592,500	4,592,500	2,003,745	2,588,755
	Special Accounts—					
	Education Excellence Appropriation Act (S.B.C. 1986, chap. 6, sec. 1) — Fund for Excellence in Education	105,240,000		105,240,000	100,240,000	5,000,000
		800,890,729	**20,577,400**	**821,468,129**	**805,969,719**	**15,498,410**

	Ministry of Agriculture and Fisheries					
7	Minister's Office	241,948		241,948	229,880	12,068
8	Ministry Operations	61,447,939		61,447,939	45,684,080	15,763,859
9	Milk Board	367,973		367,973	367,872	101
10	Provincial Agricultural Land Commission	1,142,802		1,142,802	1,116,013	26,789
11	Agri-Food Regional Development Subsidiary Agreement (ERDA)	8,130,000		8,130,000	3,507,744	4,622,256
	Statutory—					
	Cattle Horn Act (R.S.B.C. 1979, chap. 44, sec. 7) — Livestock Improvement		16,015	16,015	16,015	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 58 (3)) — Southern Interior Beef Corporation		68,220	68,220	68,220	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 58 (3)) — McLean Fitzpatrick Fruit Packers		1,000,000	1,000,000	1,000,000	
	Special Accounts—					
	Agricultural Credit Act (R.S.B.C. 1979, chap. 8, sec. 5 (2)) — Agricultural Land Development		158,640	158,640	158,640	
	Farm Income Insurance Act (R.S.B.C. 1979, chap. 123, sec. 2) — Farm Income Assurance	56,000,000		56,000,000	25,125,977	30,874,023
	Farm Product Industry Act (R.S.B.C. 1979, chap. 124, sec. 16) — Farm Products Industry Improvement		257,980	257,980	257,980	
	Livestock Protections Act (R.S.B.C. 1979, chap. 245, sec. 14) — Livestock Protection	20,000		20,000	13,491	6,509
	Less transfer to the Farm Income Assurance Fund Special Account from Vote 8	(28,000,000)		(28,000,000)	(12,075,856)	(15,924,144)
		99,350,662	**1,500,855**	**100,851,517**	**65,470,056**	**35,381,461**
	Ministry of Attorney General					
12	Minister's Office	219,629		219,629	217,398	2,231
13	Ministry Operations	281,398,956				
	Supplement — Special Warrant No. 4		6,030,000			
	Statutory—					
	Criminal Injury Compensation Act (R.S.B.C. 1979, chap. 83, sec. 3 (1))		1,438,099			
	Crown Proceeding Act (R.S.B.C. 1979, chap. 86, sec. 14 (4))		14,431	288,881,486	288,881,486	
14	Emergency Assistance	2,403,500		2,403,500	329,941	2,073,559
15	Judiciary	16,223,941				
	Supplement — Special Warrant No. 5		1,897,000	18,120,941	18,023,650	97,291

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988
STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

		Total Appropriations				
Vote No.	Description	Estimated for the 12 Months Ending March 31, 1988	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
16	Corrections	125,553,653				
	Supplement — Special Warrant No. 6		400,000	125,953,653	125,666,379	287,274
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — net of recoveries					
	Inquiry Act (R.S.B.C. 1979, chap. 198, sec. 18) — Vancouver Police Inquiry		26,844	26,844	26,844	
	Police Act (R.S.B.C. 1979, chap. 331, sec. 7) — Video Camera Use Study		98,028	98,028	98,028	
	Police Act (R.S.B.C. 1979, chap. 331, sec. 44) — Fullerton Inquiry		4,324	4,324	4,324	
	Expropriation Act (R.S.B.C. 1979, chap. 117, sec. 54) — Property acquisition		195,501	195,501	195,501	
	Flood Relief Act (R.S.B.C. 1979, chap. 138, sec. 2) — July flood, Northeast B.C.		2,028,447	2,028,447	2,028,447	
	Emergency Program Act (S.B.C. 1986, chap. 106, sec. 4)		3,200	3,200	3,200	
	Special Accounts—					
	Land Title Act (R.S.B.C. 1979, chap. 219, sec. 274 (2)) — Land Titles Survey	9,000		9,000	328	8,672
		425,808,679	**12,135,874**	**437,944,553**	**435,475,526**	**2,469,027**
	Ministry of Economic Development					
17	Minister's Office	269,370		269,370	251,420	17,950
18	Ministry Operations	59,260,467				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to Ministry of Advanced Education and Job Training		(5,984,900)			
	—Transfer to Ministry of Intergovernmental Relations		(360,000)	52,915,567	42,164,661	10,750,906
19	Economic and Regional Development Subsidiary Agreement (ERDA)	20,535,500				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	— Transfer to Ministry of Advanced Education and Job Training		(4,592,500)	15,943,000	5,758,457	10,184,543

	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14) — Transfer from Ministry of Finance and Corporate Relations (Vote 32)		4,306,923	4,306,923	3,966,704	340,219
	Public Service Benefit Plan Act (R.S.B.C. 1979, chap. 344, sec. 5) — B.C. Medical Expenses — B.C. House, London, England		14,541	14,541	14,541	
	Ocean Falls Corporation Repeal Act (R.S.B.C. 1979, chap. 304.1)		4,617	4,617	4,617	
	Special Accounts—					
	Industrial Development Fund Act (R.S.B.C. 1979, chap. 194, sec. 1 (3)) — Industrial Development Subsidiary Agreement Loan Repayment Revolving Fund	1,600,000		1,600,000	1,219,405	380,595
	Low Interest Loan Assistance Revolving Fund Act (S.B.C. 1985, chap. 44, sec. 2) — Low Interest Loan Assistance Revolving Fund	1,000,000	564,388	1,564,388	1,564,388	
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14) —Transfer from Ministry of Finance and Corporate Relations: *Purchasing Commission Act* (R.S.B.C. 1979, chap. 350, sec. 23.1 (3)) — Purchasing Commission Working Capital Account					
	—*Purchasing Commission Act* (R.S.B.C. 1979, chap. 350, sec. 23.1 (3))		6,231,406	6,231,406	6,231,406	
		82,665,337	**184,475**	**82,849,812**	**61,175,599**	**21,674,213**
	Ministry of Education					
20	Minister's Office	225,259		225,259	199,354	25,905
21	Ministry Operations	25,468,385				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 23 (3))		(113,340)	25,355,045	24,980,932	374,113
22	Public Schools Education	1,189,387,212				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 20 (3))		10,171,093	1,199,558,305	1,199,558,305	
23	Independent Schools	39,037,153				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 23 (3))		965,908	40,003,061	40,003,061	
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — net of recoveries					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 24 (1) (c)) — Interest on property tax refunds		1,024,722	1,024,722	1,024,722	
	Education (Interim) Finance Act (S.B.C. 1982, chap. 2, sec. 20 (6))		810,051	810,051	810,051	
	Teaching Profession Act (S.B.C. 1987, chap. 19, sec. 42)		513,154	513,154	513,154	
	Special Accounts—					
	Education Excellence Appropriation Act (S.B.C. 1986, chap. 6, sec. 1) — Fund for Excellence in Education	112,990,000		112,990,000	110,970,600	2,019,400
		1,367,108,009	**13,371,588**	**1,380,479,597**	**1,378,060,179**	**2,419,418**

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988

STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

Vote No.	Description	Total Appropriations			Actual Expenditure	Net Under Expenditure
		Estimated for the 12 Months Ending March 31, 1988	Other Authorizations	Total		
		$	$	$	$	$
	Ministry of Energy, Mines and Petroleum Resources					
24	Minister's Office	235,549		235,549	234,077	1,472
25	Ministry Operations	23,203,101		23,203,101	22,000,971	1,202,130
26	British Columbia Utilities Commission	1,407,430				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 20(3))		477,262	1,884,692	1,884,692	
27	Fort Nelson Indian Band Mineral Revenue Sharing Agreement	800,000		800,000	397,234	402,766
28	Mineral Development and Exploration Incentives	7,300,000		7,300,000	6,968,911	331,089
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from Ministry of Intergovernmental Relations (Vote 45)		858,618	858,618	847,229	11,389
	—Transfer from Ministry of Intergovernmental Relations (Vote 53)		5,951,652	5,951,652	5,278,449	673,203
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 24 (1)(c)) — Interest on Revenue refunds		30,139	30,139	30,139	
	Mines Act (S.B.C. 1980, chap. 28, sec. 15 (2)) — Mine Improvement		3,451	3,451	3,451	
		32,946,080	**7,321,122**	**40,267,202**	**37,645,153**	**2,622,049**
	Ministry of Environment and Parks					
29	Minister's Office	224,378		224,378	223,346	1,032
30	Ministry Operations	135,466,990		135,466,990	131,207,281	4,259,709
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — net of recoveries					
	Environment Management Act (R.S.B.C. 1979, chap. 14, secs. 5 and 6) — Pesticide Spill		23,788	23,788	23,788	
	Special Accounts—					
	Wildlife Act (S.B.C. 1982, chap. 57, sec. 11 (4)) — Habitat Conservation Fund	1,433,000	55,090	1,488,090	1,488,090	
		137,124,368	**78,878**	**137,203,246**	**132,942,505**	**4,260,741**

	Ministry of Finance and Corporate Relations					
31	Minister's Office	283,435		283,435	255,481	27,954
32	Ministry Operations	67,570,778				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14) — Transfer to Ministry of Economic Development		(4,306,923)	63,263,855	61,286,399	1,977,456
33	Compensation Stabilization Program	729,387		729,387	446,727	282,660
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 24 (1) (c)) — Interest on Revenue Refunds		1,201,476	1,201,476	1,201,476	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 21) — Special Warrant No. 2: Operations, Administration and Expenses of 8 Portfolios of Ministers of State		8,000,000	8,000,000	952,348	7,047,652
	Insurance (Captive Company) Act (S.B.C. 1987, chap. 9, sec. 15) — Administration costs		71,313	71,313	71,313	
	Property Purchase Tax Act (S.B.C. 1987, chap. 20, sec. 27) — Administration Costs		950,000	950,000	950,000	
	Unclaimed Money Act (R.S.B.C. 1979, chap. 418, sec. 15)		150,822	150,822	150,822	
	Special Accounts—					
	Purchasing Commission Act (R.S.B.C. 1979, chap. 350, sec. 23.1 (3)) — Purchasing Commission Working Capital Account					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14) — Transfer to Ministry of Economic Development					
	Resource Revenue Stabilization Fund Act (S.B.C. 1982, chap. 24, sec. 4) — Resource Revenue Stabilization Fund		1,147,863,117	1,147,863,117	1,147,863,117	
	Less transfer to the General Account from the Special Account		(1,147,863,117)	(1,147,863,117)	(1,147,863,117)	
		68,583,600	**6,066,688**	**74,650,288**	**65,314,566**	**9,335,722**
	Ministry of Forests and Lands					
34	Minister's Office	210,165		210,165	187,203	22,962
35	Ministry Operations	267,798,152		267,798,152	261,927,829	5,870,323
36	Fire Suppression Program	60,000,000				
	Statutory—					
	Forest Act (R.S.B.C. 1979, chap. 140, sec. 124 (4))		9,608,468	69,608,468	69,608,468	
37	Forest Resource Development Subsidiary Agreement (ERDA)	68,883,468		68,883,468	66,067,317	2,816,151
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 21) — Special Warrant No. 1 — Compensation to Employees and Contractors of Beban Logging Company		1,200,000	1,200,000	1,200,000	
	Special Accounts—					
	Forest Act (R.S.B.C. 1979, chap. 140, sec. 87.1) — Small Business Enterprise	21,420,000	2,587,711	24,007,711	24,007,711	
	Forest Stand Management Fund Act (S.B.C. 1986, chap. 8, sec. 3) — Forest Stand Management	19,500,000		19,500,000	18,795,458	704,542
	Less transfer to the Special Account from Vote 35	(13,000,000)		(13,000,000)	(13,000,000)	
		424,811,785	**13,396,179**	**438,207,964**	**428,793,986**	**9,413,978**

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988
STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

Vote No.	Description	Total Appropriations Estimated for the 12 Months Ending March 31, 1988	Total Appropriations Other Authorizations	Total Appropriations Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	Ministry of Health					
38	Minister's Office	220,893		220,893	220,502	391
39	Management Operations	70,114,417		70,114,417	67,309,953	2,804,464
40	Pharmacare	155,990,000				
	Supplement — Special Warrant No. 7		3,750,000	159,740,000	157,473,941	2,266,059
41	Medical Services Commission	540,373,948				
	Statutory—					
	Medical Services Commission Act (R.S.B.C. 1979, chap. 255, sec. 12)		23,626,553	564,000,501	564,000,501	
42	Preventive and Community Care Services	245,420,959				
	Supplement — Special Warrant No. 8		3,562,000	248,982,959	246,285,981	2,696,978
43	Institutional Services	1,923,913,040				
	Supplement — Special Warrant No. 9		29,468,000			
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec 23 (3))		449,833	1,953,830,873	1,953,830,873	
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — net of recoveries					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec 22 (1)) — Veterans' Hospital Agreement		11,710	11,710	11,710	
	Special Accounts—					
	Health Improvement Appropriation Act (S.B.C. 1986, chap. 9, sec. 1) — Health Improvement Fund	240,000,000		240,000,000	240,000,000	
		3,176,033,257	**60,868,096**	**3,236,901,353**	**3,229,133,461**	**7,767,892**
	Ministry of Intergovernmental Relations					
44	Minister's Office	148,133				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14) — Transfer to Ministry of Transportation and Highways		(148,133)			

45	Ministry Operations	2,457,460				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to Ministry of Transportation and Highways		(739,364)			
	—Transfer to Ministry of Energy, Mines and Petroleum Resources		(858,618)			
	—Transfer to Office of the Premier		(859,478)			
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from Ministry of Provincial Secretary and Government Services (Vote 53)		5,951,652			
	—Transfer to Ministry of Energy, Mines and Petroleum Resources (Vote 53)		(5,951,652)			
	—Transfer from Ministry of Economic Development (Vote 18)		360,000			
	—Transfer to Ministry of Transportation and Highways (Vote 18)		(360,000)			
	Special Accounts —					
	Funds Control Act (R.S.B.C. 1979, chap. 146, sec. 3) — First Citizens Fund	1,973,000				
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14) — Transfer to Ministry of Transportation and Highways		(1,973,000)			
		4,578,593	**(4,578,593)**			
	Ministry of Labour and Consumer Services					
46	Minister's Office	236,168		236,168	224,869	11,299
47	Ministry Operations	22,227,574		22,227,574	18,872,539	3,355,035
	Statutory—					
	Industrial Relations Reform Act (S.B.C. 1987, chap. 24, sec. 67) — Administration Costs		5,940,149	5,940,149	5,940,149	
		22,463,742	**5,940,149**	**28,403,891**	**25,037,557**	**3,366,334**
	Ministry of Municipal Affairs					
48	Minister's Office	235,919		235,919	233,282	2,637
49	Ministry Operations	26,379,686		26,379,686	26,208,054	171,632
50	Municipal Revenue Sharing	231,000,000		231,000,000	231,000,000	
51	Transit Services	158,635,000		158,635,000	158,578,626	56,374
	Statutory—					
	Financial Administration Act (S.B.C 1981, chap. 15, sec. 14) — Provision for Doubtful Accounts		223,729	223,729	223,729	
	Special Accounts—					
	Revenue Sharing Act (R.S.B.C. 1979, chap. 368, sec. 3) — Revenue Sharing Fund	230,750,000		230,750,000	228,437,657	2,312,343
	Special Appropriations Act (S.B.C. 1982, chap. 40, sec. 2(1)) — Downtown Revitalization	250,000	173,409	423,409	423,409	
	University Endowment Lands Act (R.S.B.C. 1979, chap. 420, sec. 3 (1)) — University Endowment Lands Administration	1,542,000		1,542,000	1,462,795	79,205
	Less Transfer to the Special Account from Vote 50	(231,000,000)		(231,000,000)	(231,000,000)	
		417,792,605	**397,138**	**418,189,743**	**415,567,552**	**2,622,191**

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988
STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

Vote No.	Description	Total Appropriations				
		Estimated for the 12 Months Ending March 31, 1988	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	Ministry of Provincial Secretary and Government Services					
52	Minister's Office	206,621		206,621	196,526	10,095
53	Ministry Operations	54,368,021				
	Supplement — Special Warrant No. 10		950,000			
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to Office of the Premier		(3,684,000)			
	—Transfer to Ministry of Intergovernmental Relations		(5,951,652)	45,682,369	44,305,775	1,376,594
54	Pensions and Employee Benefits Administration	10		10		10
55	Pensions and Employee Benefits Contributions	10				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 20(3))		539,033	539,043	539,043	
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — net of recoveries					
	Public Service Act (R.S.B.C.1979, chap. 343, sec. 49 (3))		4,990,156	4,990,156	4,990,156	
	Pension (Public Service) Amendment Act (S.B.C. 1987, chap. 63, sec. 1 and 2)		42,250,000	42,250,000	42,250,000	
	Elections Act (R.S.B.C. 1979, chap. 103, sec. 191) — 1986 Election Expenses — Boundary Similkameen		180	180	180	
	Inquiry Act (R.S.B.C. 1979, chap. 198, sec. 18)					
	—Royal Commission on Education		1,919,281	1,919,281	1,919,281	
	—Royal Commission on Electoral Boundaries		753,479	753,479	753,479	
	—Social Housing Commission		2,627	2,627	2,627	
	—Royal Commission on Coquihalla Highway Costs		452,735	452,735	452,735	
	—Royal Commission on Okalla Prison		58,074	58,074	58,074	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 58)					
	—Insurance Claims: Health Care Facilities		144,388	144,388	144,388	
	—Insurance Claims and Administration: School Districts and Colleges		15,000	15,000	15,000	
		54,574,662	**42,439,301**	**97,013,963**	**95,627,264**	**1,386,699**

	Ministry of Social Services and Housing					
56	Minister's Office	216,355		216,355	211,932	4,423
57	Ministry Operations	1,385,939,454		1,385,939,454	1,373,235,549	12,703,905
58	British Columbia Home Program	10		10		10
	Statutory—					
	Special Accounts—					
	Home Conversion and Leasehold Loan Act (R.S.B.C. 1979, chap. 170, sec. 17 (1)), and *Home Purchase Assistance Act* (R.S.B.C. 1979, chap. 172, sec. 21 (1)) — Provincial Home Acquisition	5,275,000	264,853	5,539,853	5,539,853	
		1,391,430,819	**264,853**	**1,391,695,672**	**1,378,987,334**	**12,708,338**
	Ministry of Tourism, Recreation and Culture					
59	Minister's Office	228,460		228,460	217,502	10,958
60	Ministry Operations	50,675,347				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec 23 (3))		(375,289)	50,300,058	50 166,384	133,674
	Statutory—					
	Special Accounts—					
	Special Appropriations Act (S.B.C. 1982, chap. 40, sec. 7 (1)) — Provincial Computerization of Libraries	292,000		292,000	28,345	263,655
	Funds Control Act (R.S.B.C. 1979, chap. 146, sec. 6) — British Columbia Cultural Fund	1,594,000		1,594,000	1,399,806	194,194
	Funds Control Act (R.S.B.C. 1979, chap. 146, sec. 4) — Physical Fitness and Amateur Sports Fund	1,650,000		1,650,000	1,649,585	415
		54,439,807	**(375,289)**	**54,064,518**	**53,461,622**	**602,896**
	Ministry of Transportation and Highways					
61	Minister's Office	235,299		235,299	228,309	6,990
62	Administration and Support Services	14,759,725		14,759,725	14,539,248	220,477
63	Highway Operations Department	726,974,820				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec 23 (3))		(4,999,705)	721,975,115	671,357,302	50,617,813
64	Motor Vehicle Department	33,961,110		33,961,110	30,104,997	3,856,113
65	Transportation Policy Department	86,909,512		86,909,512	86,196,032	713,480
	Statutory—					
	Constitution Act (R.S.B.C 1979, chap. 62, secs. 13 and 14)					
	—Transfer from Ministry of Intergovernmental Relations (Vote 18)		360,000	360,000	360,000	
	—Transfer from Ministry of Intergovernmental Relations (Vote 44)		148,133	148,133	142,051	6,082
	—Transfer from Ministry of Intergovernmental Relations (Vote 45)		739,364	739,364	645,527	93,837
	Indian Cut-Off Lands Dispute Act (S.B.C. 1982, chap. 50, sec. 5)		124,000	124,000	124,000	
	Special Accounts—					
	Constitution Act (R.S.B.C 1979, chap. 62, secs. 13 and 14) — Transfer from Ministry of Intergovernmental Relations — *Funds Control Act* (R.S.B.C. 1979, chap. 146, sec. 3) — First Citizens' Fund		1,973,000	1,973,000	1,673,728	299,272
		862,840,466	**(1,655,208)**	**861,185,258**	**805,371,194**	**55,814,064**

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988
STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

Vote No.	Description	Total Appropriations			Actual Expenditure	Net Under Expenditure
		Estimated for the 12 Months Ending March 31, 1988	Other Authorizations	Total		
		$	$	$	$	$
	Other Appropriations					
66	Management of the Public Debt (Ministry of Finance and Corporate Relations)	530,200,000		530,200,000	525,277,283	4,922,717
67	Contingencies (All Ministries) (Ministry of Finance and Corporate Relations)	50,000,000				
	Supplement — Special Warrant No. 11		15,000,000	65,000,000	50,107,855	14,892,145
	Statutory—					
	Special Accounts—					
	Ministry of Lands, Parks and Housing Act (R.S.B.C. 1979, chap. 277, sec. 7 (2)) — Crown Land	21,962,000		21,962,000	21,932,832	29,168
	Lottery Act (R.S.B.C. 1979, chap. 249, secs. 6 and 7) — Lottery Fund	170,500,000		170,500,000	120,111,811	50,388,189
		772,662,000	**15,000,000**	**787,662,000**	**717,429,781**	**70,232,219**
	Total Expenditure	**10,220,000,000**	**199,022,164**	**10,419,022,164**	**10,160,933,467**	**258,088,697**
	Summary					
	Voted Expenditure	9,497,000,000	5,723,665	9,502,723,665	9,357,392,812	145,330,853
	Statutory—					
	Special Accounts	995,000,000	1,158,156,594	2,153,156,594	2,060,596,412	92,560,182
	Special Warrants		80,257,000	80,257,000	44,135,194	36,121,806
	Various Acts		102,748,022	102,748,022	102,748,022	
	Less Inter-Account Transfers	(272,000,000)	(1,147,863,117)	(1,419,863,117)	(1,403,938,973)	(15,924,144)
	Total Expenditure	**10,220,000,000**	**199,022,164**	**10,419,022,164**	**10,160,933,467**	**258,088,697**

For details of amounts referred to under section 22 of the *Financial Administration Act*, *see* Section D of the Public Accounts.

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988
STATEMENT OF EXPENDITURE BY GROUP ACCOUNT CLASSIFICATION
FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	In Thousands	
	1988	1987
	$	$
Grants and contributions	7,476,808	7,291,702
Salaries and benefits	1,272,552	1,175,285
Operating costs	1,013,209	1,008,460
Asset acquisitions	353,718	478,851
Other	874,003	729,146
Recoveries	(829,357)	(884,793)
	10,160,933	9,798,651

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988
STATEMENT OF GUARANTEED DEBT AS AT MARCH 31, 1988

Guaranteed debt represents that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government, under the authority of a statute, as to net principal or redemption provisions and accrued interest or dividends outstanding.

	In Thousands	
	1988 Net Outstanding[2]	1987 Net Outstanding[2]
Municipalities and other local governments—	$	$
(1) Guarantees authorized pursuant to the *Municipalities Assistance Act*, sec. 3	1,222	1,698
(2) Guarantees authorized pursuant to the *Municipal Act*, sec. 854 —		
Debentures	11,480	13,096
Subtotal, municipalities and other local governments	12,702	14,794
Government services—		
(3) Guarantees authorized pursuant to the *British Columbia Buildings Corporation Act*, sec. 13[1]—		
Debentures	241,931	265,011
Mortgage	2,296	
(4) Guarantees authorized pursuant to the *System Act*, sec. 20[1] —		
Debentures	22,686	23,575
Subtotal, government services	266,913	288,586
Health and education[4]—		
(5) Guarantees authorized pursuant to the *Educational Institution Capital Finance Act*, sec. 9[1]—		
Debentures	359,563	367,703
(6) Guarantees authorized pursuant to the *Financial Administration Act*, sec. 56 —		
Student aid loans	46,187	31,046
Simon Fraser University — Debentures	3,765	3,812
(7) Guarantees authorized pursuant to the *Hospital District Finance Act*, sec. 9[1]—		
Debentures	733,225	714,732
(8) Guarantees authorized pursuant to the *School District Capital Finance Act*, sec. 9[1]—		
Debentures	869,745	878,283
Subtotal, health and education	2,012,485	1,995,576
Economic development —		
(9) Guarantees authorized pursuant to the *Agricultural Credit Act*, sec. 3	1,872	3,049
(10) Guarantees authorized pursuant to the *British Columbia Enterprise Corporation Act*, sec. 6[1]	80,162	29,264
(11) Guarantees authorized pursuant to the *British Columbia Railway Finance Act*, sec. 10[1]—		
Capital leases	24,872	25,490
1st preferred shares — BC Rail Ltd.	200,000	204,625

(12) Guarantees authorized pursuant to the *British Columbia Transit Act*, sec. 22[1]—		
Bonds and debentures	51,905	53,656
Capital leases	225,257	180,820
(13) Guarantees authorized pursuant to the *Development Corporation Act*, sec. 15 —		
Bonds and Notes		93,855
Less: held by the British Columbia Housing and Employment Development Financing Authority		(29,129)
(14) Guarantees authorized pursuant to the *Farm Product Industry Act*, sec. 2	1,750	1,430
(15) Guarantees authorized pursuant to the *Ferry Corporation Act*, sec. 18[1]—		
Notes	36,242	42,427
Capital leases	42,647	43,466
(16) Guarantees authorized pursuant to the *Financial Administration Act*, sec. 56 —		
Vancouver Symphony Orchestra	750	
(17) Indemnities authorized pursuant to the *Financial Administration Act*, sec. 56 —		
W.L.C. Developments Ltd.		4,093
The Terry Fox Medical Research Foundation, *et al*	8,000	8,000
Moli Energy Limited	27,610	20,000
National Homes Limited		43
(18) Guarantees authorized pursuant to the *Housing and Employment Development Financing Act*, secs. 5 and 6[1] —		
Bonds and debentures	1,586	2,226
(19) Guarantees authorized pursuant to the *Petroleum Corporation Act*, secs. 10 and 12[1]		30,000
Subtotal, economic development	702,653	713,315
Utilities—		
(20) Guarantees authorized pursuant to the *Hydro and Power Authority Act*, sec. 44[1]—		
Bonds and debentures	6,882,700	7,476,923
Grand total, all guaranteed debt	9,877,453	10,489,194
Less: Amounts included above held by General Fund[3]	(9,212)	(17,018)
Net total, all guaranteed debt	9,868,241	10,472,176

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[1] *See* Section F of the Public Accounts for details of maturity dates, interest rates and redemption features of the outstanding debt of these Crown agencies.

[2] Net outstanding guaranteed debt includes gross principal debt and accrued interest less sinking fund balances, and represents the total amount of contingent liability of the Government arising from relevant guarantees. Amounts payable in foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the fiscal year-end.

[3] As a result of Government financing and investment policies, $2.1 billion of guaranteed debt is held by Trust Funds actively managed by the Government.

[4] The Government is directly responsible for paying 57.31% to 100% of debt service costs for health and education debt through various grant formulas. In 1987/88 the contributions totalled approximately $274 million or 78.9% of debt service costs.

GENERAL FUND, AND SPECIAL FUNDS CONVERTED TO SPECIAL ACCOUNTS ON MARCH 31, 1988

STATEMENT OF INFORMATION REQUIRED UNDER SECTION 8 (2) (b) (iii) OF THE *FINANCIAL ADMINISTRATION ACT*

FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	In Thousands			
Ministry	Money Refunded	Assets and Uncollectible Debts Written-Off	Debts and Obligations Forgiven	Remissions Made
	$	$	$	$
Advanced Education and Job Training	639			
Attorney General	367	996		
Education	6,927			
Energy, Mines and Petroleum Resources		8		
Environment and Parks	30	3		
Finance and Corporate Relations	1,058	11,157		262
Forests and Lands	313	8,498	50	
Health	268	1,119		2
Municipal Affairs	28			
Transportation and Highways	6,551	24		
Total 1988	16,181	21,805	50	264
Total 1987	5,965	20,807	889	1,719

This statement includes amounts authorized by sections 13, 14, 15 and 16 of the *Financial Administration Act*. Amounts authorized for refund, write-off, forgiveness or remission by other statutes are not shown separately in these financial statements.

SECTION B

COMBINED FINANCIAL STATEMENTS

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Legislative Assembly
Province of British Columbia

AUDITOR GENERAL

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AUDITOR GENERAL'S REPORT

To the Legislative Assembly
of the Province of British Columbia
Parliament Buildings
Victoria, British Columbia

I have examined the combined balance sheet of the Government of the Province of British Columbia as at March 31, 1988, and the combined statements of revenue and expenditure and changes in cash and temporary investments for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. I have received all the information and explanations I have required.

I report in accordance with section 7 of the *Auditor General Act*. In my opinion, these combined financial statements present fairly the financial position of the Government's consolidated revenue fund as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with the stated accounting policies as set out in Note 1 to these financial statements applied on a basis consistent with that of the preceding year.

George L. Morfitt

George L. Morfitt, F.C.A.
Auditor General

Victoria, British Columbia
August 31, 1988

COMBINED BALANCE SHEET AS AT MARCH 31, 1988

		In Thousands	
	Note	1988	1987
ASSETS		$	$
Cash and temporary investments	2	116,351	109,878
Accounts receivable	3	811,647	789,632
Inventories	4	118,786	105,305
Investments in and amounts due from Crown corporations and agencies	5	1,004,058	1,040,263
Loans, advances and other investments	6	163,027	154,203
Mortgages receivable	7	322,719	299,593
Fiscal Agency loans	8	2,623,218	2,216,625
Other assets	9	166,687	121,732
		5,326,493	**4,837,231**
LIABILITIES AND NET EQUITY (DEFICIENCY)			
Liabilities:			
Accounts payable and accrued liabilities	10	992,795	896,328
Due to Crown corporations, agencies and funds	11	198,729	421,889
Deferred revenue	12	255,513	212,969
Public debt, issued for Government purposes	13	5,016,747	4,801,901
Public debt, to finance Fiscal Agency loans	14	2,623,218	2,216,625
		9,087,002	8,549,712
Net equity (deficiency)	15	(3,760,509)	(3,712,481)
		5,326,493	**4,837,231**
Fixed Assets	1		
Contingencies and Commitments	16		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Approved on behalf of the Ministry of Finance and Corporate Relations:

P.G. Halkett

P. G. HALKETT
A/Deputy Minister of Finance
and Corporate Relations

D. B. MARSON
Comptroller General

COMBINED STATEMENT OF REVENUE AND EXPENDITURE FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	In Thousands		
	1988		1987
	Estimates[2]	Actual	Actual
	$	$	$
REVENUE			
Taxation	5,343,000	5,744,305	4,861,505
Natural resources	918,000	1,222,958	657,591
Other	638,000	630,388	589,526
Contributions from Government enterprises	452,000	469,795	447,605
Contributions from the Federal Government	2,019,000	2,019,931	1,993,257
Total revenue	**9,370,000**	**10,087,377**	**8,549,484**
EXPENDITURE			
Health	2,918,900	2,997,293	2,860,564
Social services	1,663,700	1,610,382	1,512,430
Education	2,118,700	2,203,670	1,913,915
Transportation and communications	835,300	768,079	975,418
Natural resources, trade and industrial development	745,600	721,019	614,938
Protection of persons and property	476,500	480,842	453,257
Aid to local government	403,400	402,514	392,322
Debt servicing[1]	530,200	525,277	393,581
General government	167,600	177,496	195,564
Housing	81,400	64,362	101,902
Recreation and cultural services	82,800	71,230	66,658
Other	195,900	113,241	318,102
Total expenditure	**10,220,000**	**10,135,405**	**9,798,651**
Net Operating Expenditure for the Year	**(850,000)**	**(48,028)**	**(1,249,167)**
NON-OPERATING TRANSACTIONS			
Valuation adjustment of investments in and amounts due from Crown corporations and agencies	0	0	88,447
Net Expenditure for the Year (note 15)	**(850,000)**	**(48,028)**	**(1,160,720)**

---

[1] Debt servicing does not include interest of $248,461,000 (1987 — $233,364,000) on borrowings to finance Fiscal Agency loans as the interest revenue and expenditure are offsetting.

[2] Estimated amounts are as presented in the Estimates for this fiscal year. This presentation makes no attempt to include additional statutory or other expenditure appropriations. Such information is contained in the Statement of Comparison of Estimated Appropriations to Actual Expenditures (*See* B 22 to B 32).

The accompanying notes and supplementary statements are an integral part of these financial statements.

COMBINED STATEMENT OF CHANGES IN CASH AND TEMPORARY INVESTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	In Thousands			
	1988		1987	
	$		$	
OPERATING TRANSACTIONS				
Net operating expenditure for the year		(48,028)		(1,249,167)
Non-cash items included in net expenditure				
Accounts receivable (increases)	(22,015)		(97,448)	
Accounts payable increases	96,467		59,833	
Due to Crown corporations increases (decreases)	(223,160)		114,180	
Public Debt increases	29,681		11,745	
Due from Crown corporations (increases) decreases	(3)		13,969	
Other under $10 million	(2,155)		3,998	
		(121,185)		106,277
Cash items applicable to future operations		(26,188)		(627)
Cash used for operations		(195,401)		(1,143,517)
INVESTMENT TRANSACTIONS				
Loans, advances and other investments (issues) repayments	(8,383)		27,320	
Mortgages receivable (issues)	(23,084)		(25,128)	
Divestment of (investment in):				
Crown corporations	36,208		(585,011)	
Other assets			1	
Cash derived from (used for) investments		4,741		(582,818)
Total financial requirements		(190,660)		(1,726,335)
FINANCING TRANSACTIONS				
Increase in public debt issues	602,596		2,007,019	
Less: Used for Fiscal Agency loans	(405,463)		(398,309)	
Cash derived from financing		197,133		1,608,710
Increase (decrease) in cash and temporary investments		6,473		(117,625)
Balance — Beginning of Year		109,878		227,503
Balance — End of Year		116,351		109,878

The accompanying notes and supplementary statements are an integral part of these financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988

1. Significant Accounting Policies

(a) REPORTING ENTITY

These financial statements include the transactions and balances of the General Fund and Special Funds which combined are known as the Consolidated Revenue Fund. Separate consolidated financial statements of the Government are prepared which include the financial activities of the Consolidated Revenue Fund and certain Crown corporations and agencies. (*See* Section C of the Public Accounts.)

For purposes of these financial statements the accounts of the Government are presented as one Consolidated Revenue Fund, which is comprised of:

- General Fund — it includes all transactions and balances of the Government not otherwise earmarked by legislative action, including the accounts of the British Columbia Liquor Distribution Branch, the Queen's Printer and the Purchasing Commission, special accounts and other statutory spending authorities; and
- Special Funds — these are comprised of all amounts set aside from the General Fund by special disposition of the Legislature.

(b) PRINCIPLES OF COMBINATION

The accounts of the General Fund are combined with the Special Funds after adjusting them to conform with the accounting policies as described below. Interfund revenue and expenditure transactions are eliminated upon combination.

(c) BASIS OF ACCOUNTING

The accrual basis of accounting is used which, for these combined financial statements, is specifically expressed as follows:

Revenue

All revenues are recorded on an accrual basis except where the accruals cannot be determined with a reasonable degree of certainty or where their estimation is impracticable. The exceptions, which normally relate to certain payments to the Province under the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977*, are recorded on a cash basis. Revenues from Crown corporations are recognized when cash transfers are received or when dividends are declared.

Expenditure

All expenditures, including the cost of fixed assets, are recorded for goods and services received during the year. Grants and contributions (which include forgivable loans) are recorded as expenditure when disbursement of the funds has been authorized, with the exception that social assistance payments during a given month to meet the needs of recipients in an ensuing month are recorded as expenditure in the period to which the payments apply.

Recoveries of expenditure may be recorded as a credit to the appropriate expenditure account when:

(i) they can be specifically identified with the expenditure transactions and payment has actually been made from an appropriation;
(ii) provision for them has been approved through the Estimates or by Treasury Board; and
(iii) the expenditure to which they relate was incurred in the same fiscal year.

Assets

All assets are recorded to the extent that they represent cash and claims upon outside parties or items held for resale to outside parties as a result of events and transactions prior to the year-end. Rental payments for leases which transfer the benefits and risks incident to the ownership of certain assets, not including special purpose buildings, are reported as expenditures at the dates of inception of the leases.

Liabilities

All liabilities are recorded to the extent that they represent claims payable to outside parties as a result of events and transactions prior to the year-end.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year-end and foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts which

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

1. Significant Accounting Policies—Continued

specify the rate of exchange. Adjustments to revenue or expenditure transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long-term, fixed-term monetary assets and liabilities are reported as a deferred charge and amortized over the remaining terms of the related items on a straight line basis.

Non-monetary assets and liabilities are translated at historical rates of exchange.

(d) SPECIFIC POLICIES

Cash and Temporary Investments

Cash balances are shown after deducting outstanding cheques issued prior to the year-end. Cheques issued subsequent to the year-end relating to the previous year are included in accounts payable.

Temporary investments include short-term investments recorded at the lower of cost or market value.

Temporary investments consist mainly of units in the Province of British Columbia Pooled Investment Portfolios. Units are carried at the lower of cost of acquisition adjusted by income attributed to the units, or market value. Income attributed to the units represents the unitholders' share of interest earned by the Portfolio and is realizable by unitholders upon the sale of units.

Accounts Receivable

All amounts receivable (including any trade receivables from Crown corporations and agencies) at the year-end for work performed, goods supplied or services rendered are recorded as revenue of the fiscal year. Provision is made where collectibility is considered doubtful.

Inventories

Inventories comprise items held for resale and are recorded at the lower of cost or net realizable value. Inventories of supplies are charged to the respective programs when the cost is incurred.

Property under development, which will eventually be sold to outside parties, is recorded at the lower of cost or net realizable value.

Investments In and Amounts Due from Crown Corporations and Agencies

Investments in and amounts due from Crown corporations and agencies represent long-term investments and amounts due, other than trade receivables, and are recorded at cost unless significant prolonged impairment in value has occurred, in which case they are written down to recognize this loss in value. If, in periods subsequent to recognizing this impairment, the value of the investment is restored, the investment is written up to the lesser of restored value or original cost.

Loans, Advances and Other Investments

Loans, advances and other investments are recorded at cost less adjustment for any prolonged impairment in value.

Mortgages Receivable

Mortgages receivable are secured by real estate and are repayable over periods ranging up to thirty years. Provision is made where collectibility is considered doubtful.

Fiscal Agency Loans

Fiscal Agency loans consist of loans made to government bodies which have been financed by borrowings made by the Minister of Finance and Corporate Relations, in his capacity as fiscal agent, on behalf of government bodies in accordance with the *Financial Administration Act* (S.B.C. 1981, chap. 15). These loans are recorded at maturity value less unamortized discounts and sinking fund balances. Discounts are amortized on an effective yield basis.

Other Assets

Other assets include prepaid program costs. Prepaid program costs represent expenditures made during the fiscal year for work to be performed, goods to be supplied, services to be rendered or contractual obligations to be fulfilled by outside parties in a subsequent fiscal year. These costs also include inventories of operating materials held in the Purchasing Commission and Queen's Printer warehouses pending distributions in a subsequent fiscal year.

Also included in other assets are certain deferred charges.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

1. Significant Accounting Policies—Continued

Fixed Assets

Disbursements for fixed assets are recorded as expenditures in the year the assets are received. Consistent with the reporting of fixed assets as expenditures, highways, bridges, wharves, ferries and ferry landings, buildings, office equipment, furniture, automobiles and Crown land comprised of parks, forests and all other publicly held land in the Province, not including property under development, are recorded at a nominal value of $1.

Accounts Payable and Accrued Liabilities

All amounts payable (including trade payables to Crown corporations and agencies) for work performed, goods supplied, services known to have been rendered or for charges incurred in accordance with the terms of a contract are recorded as part of the expenditure of the fiscal year.

Due to Crown Corporations, Agencies and Funds

Amounts due to Crown corporations, agencies and funds represent liabilities incurred, other than trade payables, which are payable in the following year.

Deferred Revenue

Deferred revenue represents amounts received or receivable prior to the year-end relating to revenue that will be earned in subsequent fiscal years.

Public Debt

Public debt represents direct debt obligations for the purposes of the Government of British Columbia and the Fiscal Agency loans. These obligations are recorded at principal less unamortized discounts and sinking fund balances where applicable. Discounts are amortized on an effective yield basis.

Guaranteed Debt

Guaranteed debt represents that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government, under the authority of a statute, as to net principal or redemption provisions and accrued interest or dividends outstanding.

Commitments

Commitments represent future obligations of the Government for capital contracts and extraordinary program commitments, to the extent of contracts and agreements in place at the year-end.

2. Cash and Temporary Investments

	In Thousands	
	1988	1987
	$	$
Cash (cheques issued in excess of funds on deposit)	(160,497)	(179,752)
Temporary investments		
Units in Province of British Columbia Pooled Investment Portfolios[1]	223,409	280,960
Other	53,439	8,670
	116,351	109,878

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[1] Established pursuant to the *Financial Administration Act*, section 36 (9) (a).

Other than statutory requirements or administrative policies which specifically provide for the maintenance of separate bank accounts, the Government's cash balances and temporary investments are all held in General Fund bank and investment accounts.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

3. Accounts Receivable

	In Thousands	
	1988	1987
	$	$
Taxes receivable	429,616	408,662
Local government bodies	4,904	1,869
Government of Canada	69,034	206,343
Ministerial accounts receivable	298,148	169,433
Accrued interest	59,745	50,682
Crown corporations and agencies	20,981	22,836
	882,428	859,825
Less provision for doubtful accounts	(70,781)	(70,193)
	811,647	789,632

4. Inventories

	In Thousands	
	1988	1987
	$	$
Property under development	53,118	50,357
British Columbia Liquor Distribution Branch	58,986	52,732
Ministerial inventories	6,682	2,216
	118,786	105,305

5. Investments In and Amounts Due From Crown Corporations and Agencies

	In Thousands			
	1988			1987
	Investments	Amounts Due	Total	Total
	$	$	$	$
British Columbia Buildings Corporation		55,758	55,758	45,744
British Columbia Enterprise Corporation	305,020	19,733	324,753	324,834
British Columbia Ferry Corporation	6,851		6,851	6,851
British Columbia Food Exhibitions Ltd.[1]				
British Columbia Hydro and Power Authority		8,087	8,087	8,084
B.C. Pavilion Corporation	162,008		162,008	162,008
British Columbia Petroleum Corporation		85,905	85,905	85,905
British Columbia Railway Company	257,689	20,542	278,231	267,924
British Columbia Regional Hospital Districts Financing Authority		12,000	12,000	12,000
British Columbia School Districts Capital Financing Authority		36,500	36,500	44,088
British Columbia Steamship Company (1975) Ltd.[1]				
British Columbia Transit				49,000
Discovery Enterprises Inc.		7,032	7,032	6,100
Housing Corporation of British Columbia[1]				
Pacific Coach Lines Limited[1]				
Provincial Rental Housing Corporation	634	24,377	25,011	26,223
Workers' Compensation Board of British Columbia		1,922	1,922	1,502
	732,202	271,856	1,004,058	1,040,263

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[1] The Province's investment is less than one thousand dollars for each of these corporations.

(a) Definitions

The entire issued capital stock of each of the Crown corporations recorded under investments is owned by the Province. A number of Crown corporations and agencies exist for which the Province has no recorded investment.

Amounts due represent long-term notes and debentures of Crown corporations and agencies held by the Province, in addition to recoverable advances due to the Province.

(b) British Columbia Petroleum Corporation (the Corporation)

Prior to July 1, 1985, the Corporation's retained earnings were recorded as due to the Province because these amounts were considered to have been collected in lieu of other forms of taxation. Subsequent to the *Natural Gas Price Act*, the Corporation is no longer a revenue collecting agent of the Province. Any transfer of funds to the Province will be applied to reduce the amount due from the Corporation.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

5. Investments In and Amounts Due From Crown Corporations and Agencies—Continued

(c) Pacific Coach Lines Limited (the Company)

Effective March 31, 1984, the operations of Pacific Coach Lines Limited ceased and wind-up of the Company commenced. The wind-up of the Company will be completed following disposal of the remaining real estate assets. The Ministry of Municipal Affairs assumed responsibility for this Company effective September 1986.

6. Loans, Advances and Other Investments

	In Thousands	
	1988	1987
	$	$
Low Interest Loan Agreement Revolving Fund Act	31,845	32,596
Homeowner Assistance Act	17,393	27,400
Ministry of Lands, Parks and Housing Act	12,467	25,912
Industrial Development Incentive Act	40,672	15,960
Industrial Development Fund Act	22,932	20,235
Crop Insurance Stabilization	15,200	16,500
Agricultural Land Development Act	16,047	16,449
Downtown Revitalization	17,568	16,312
Other	20,518	14,894
	194,642	186,258
Less provision for doubtful accounts	(31,615)	(32,055)
	163,027	154,203

7. Mortgages Receivable

	In Thousands	
	1988	1987
	$	$
Crown Land — Pursuant to the *Ministry of Lands, Parks and Housing Act*	31,013	32,147
Provincial Home Acquisition — Pursuant to the *Provincial Home Acquisition Act, Home Purchase Assistance Act*, and the *Home Conversion and Leasehold Loan Act*	306,376	281,898
Other	1,140	1,400
	338,529	315,445
Less provision for doubtful accounts	(15,810)	(15,852)
	322,719	299,593

8. Fiscal Agency Loans

	In Thousands	
	1988	1987
	$	$
British Columbia Assessment Authority	4,331	4,503
British Columbia Buildings Corporation	154,693	123,922
British Columbia Educational Institutions Capital Financing Authority	19,385	22,430
British Columbia Enterprise Corporation	88,907	15,491
British Columbia Regional Hospital Districts Financing Authority	15,467	
British Columbia Housing and Employment Development Financing Authority		24,364
British Columbia Hydro and Power Authority	1,218,212	898,602
British Columbia Railway Company	73,939	74,110
British Columbia Steamship Company (1975) Ltd.	8,572	3,111
British Columbia Systems Corporation	24,570	20,325
British Columbia Transit	835,028	781,845
Capital Project Certificate of Approval Program	90,021	63,339
Expo 86 Corporation		98,643
Greater Vancouver Sewerage and Drainage District	29,095	29,673
Greater Vancouver Water District	19,750	19,782
Improvement Districts	746	
University of British Columbia	40,502	36,485
	2,623,218	2,216,625

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

9. Other Assets

	In Thousands 1988	 1987
	$	$
Prepaid Program Costs		
Guaranteed Available Income for Need Act	65,708	64,302
Medical Services Commission of British Columbia	37,755	26,150
Other ministerial prepayments	45,381	13,650
Unamortized issue costs of public debt	17,843	17,630
	166,687	121,732

10. Accounts Payable and Accrued Liabilities

	In Thousands 1988	 1987
	$	$
Ministry trade accounts and other liabilities	567,936	517,237
Accrued interest on public debt	212,875	182,583
Accrued employee leave entitlements	130,835	101,891
Forest Act, section 88	49,700	64,387
Government of Canada	31,449	30,230
	992,795	896,328

The total cost of the early retirement incentive plan was $87.8 million, of which $26.6 million is included under accrued employee leave entitlements.

11. Due to Crown Corporations, Agencies and Funds

	In Thousands 1988	 1987
	$	$
Amounts due to Trust Funds	16,423	183,587
British Columbia Colleges and Institutes	11,923	11,751
British Columbia Enterprise Corporation	1,428	5,775
British Columbia Housing Management Commission	25	
British Columbia Transit		3,584
Expo 86 Corporation		60,188
Medical Services Commission of British Columbia	161,105	148,548
Simon Fraser University	1,766	2,310
University of British Columbia	4,942	4,961
University of Victoria	1,117	1,185
	198,729	421,889

12. Deferred Revenue

	In Thousands 1988	 1987
	$	$
Motor vehicle licences and permits	85,322	74,585
Water rentals and recording fees	64,127	54,049
Petroleum, natural gas and minerals, leases and fees	23,569	23,567
Canada Assistance Plan	32,839	32,098
Miscellaneous	49,656	28,670
	255,513	212,969

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

13. Public Debt Issued for Government Purposes

	In Thousands 1988	 1987
Short-term promissory notes	$	$
Payable in Canadian currency	200,220	357,625
Payable in United States currency (U.S. $5,500; 1987 U.S. $178,586)	7,174	235,797
	207,394	593,422
Less: Unamortized discount	(4,839)	(8,824)
	202,555	584,598
91-day Treasury Bills	780,000	650,000
Less: Unamortized discount	(8,352)	(5,289)
	771,648	644,711
Notes and bonds		
Payable in Canadian currency	4,174,467	3,632,322
Payable in United States currency (U.S. $165,713; 1987 U.S. $166,381)	204,506	217,144
	4,378,973	3,849,466
Less: Unamortized discount	(179 939)	(187,633)
	4,199,034	3,661,833
Less: Sinking fund balances	(156,490)	(89,241)
	4,042,544	3,572,592
	5,016,747	4,801,901

Short-term promissory notes payable in U.S. currency are fully hedged to mature in Canadian funds. Notes outstanding at March 31, 1988, mature at various dates to December 15, 1988, at an annual average interest rate of 8.91%. During the year $4.0 billion in notes were issued at interest rates which varied between 6.80%–10.50%.

Treasury bills outstanding at March 31, 1988, mature at various dates to June 29, 1988, at an annual average interest rate of 8.48%. During the year, $2.9 billion in Treasury bills were issued at interest rates which varied between 6.87%–9.66%.

The Province had 137 series of notes and bonds outstanding at March 31, 1988.

Included in notes and bonds payable in Canadian currency are Japanese Yen notes totalling 31.1 billion Yen (1987: 31.1 billion Yen) which have been fully hedged to $220.7 million Canadian (1987: $220.7 million Canadian) through currency exchange agreements.

Included in notes and bonds payable in U.S. currency are Swiss Franc notes totalling 325 million Francs (1987: 325 million Francs) which have been fully hedged to $149 million U.S. (1987: $149 million U.S.) through a currency exchange agreement.

The following notes and bonds were issued by the Province in Canadian currency during the year ended March 31, 1988.

Date of Maturity	Series	Coupon Rate %	Principal In thousands $
August 21, 1989	PRT	8.00	30,000
August 1, 1990	P-BH	8.08	6,000
November 1, 1990	P-BC	7.91	10,500
September 15, 1991	P-C	3.75	3,000
November 1, 1991	P-HJ	7.15	5,000
November 10, 1991	P-YG	7.14	9,101
February 10, 1992	P-HK	6.75	4,928
March 1, 1992	P-YH	6.90	8,000
May 10, 1992	P-YJ	7.38	7,014
May 21, 1992	P-D	4.00	1,000
June 15, 1992	P-E	4.00	1,000
July 2, 1992	P-BL	7.45	7,000
August 10, 1992	P-YK	7.49	6,260
August 10, 1992	P-HN	7.49	2,500
September 7, 1992	P-YL	7.50	5,000

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

13. Public Debt Issued for Government Purposes — Continued

Date of Maturity	Series	Coupon Rate %	Principal In thousands $
September 15, 1992	P-F	4.00	1,500
September 15, 1992	P-MD	5.00	18,724
September 15, 1992	P-N	5.00	10,000
October 10, 1992	P-YM	7.49	5,000
November 10, 1992	P-YN	7.51	8,907
December 8, 1992	P-YO	7.38	8,199
January 10, 1993	P-YP	7.26	4,627
March 3, 1993	BCEC-7	9.25	117,347
March 8, 1993	P-HQ	7.23	6,500
May 9, 1993	P-YQ	7.34	10,000
June 7, 1993	P-HR	7.48	6,000
October 29, 1993	BCJY-7	10.67	12,500
November 25, 1997	PRV	10.25	122,022
April 9, 1998	PRS	7.75	300,000

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

	In Thousands	
	Canadian Funds $	U.S. Funds $
1989	221,448	687
1990	212,375	149,536
1991	758,550	687
1992	641,814	687
1993	362,494	687

14. Public Debt to Finance Fiscal Agency Loans

	In Thousands	
	1988 $	1987 $
Short-term promissory notes		
Payable in Canadian currency	972,984	660,602
Payable in United States currency (U.S. $48,047; 1987 U.S. $261,727)	59,970	345,899
	1,032,954	1,006,501
Less: Unamortized discount	(12,193)	(13,960)
	1,020,761	992,541
Less: Sinking fund balance		(16,478)
	1,020,761	976,063
Notes, bonds and debentures payable in Canadian currency	1,659,608	1,278,578
Less: Unamortized discount	(14,094)	(14,058)
	1,645,514	1,264,520
Less: Sinking fund balances	(43,057)	(23,958)
	1,602,457	1,240,562
	2,623,218	2,216,625

Short-term promissory notes payable in U.S. currency are hedged to mature in Canadian funds or are effectively hedged by fully offsetting U.S. dollar fiscal agency loans receivable. Notes outstanding at March 31, 1988, mature at various dates to August 12, 1988, at an annual average interest rate of 8.45%. During the year, $5.8 billion in notes were issued at interest rates which varied between 6.74%-9.83%.

The Province had 43 issues of notes and debentures outstanding at March 31, 1988.

Included in notes, bonds and debentures payable in Canadian currency are Japanese Yen notes totalling 13.4 billion Yen (1987: 13.4 billion Yen) which have been fully hedged to $82.9 million Canadian (1987: $82.9 million) through foreign currency exchange agreements.

NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

14. Public Debt to Finance Fiscal Agency Loans—Continued

The following notes, bonds and debentures were issued by the Province in Canadian currency during the year ended March 31, 1988.

Date of Maturity	Series	Coupon Rate %	Principal In thousands $
March 3, 1993	BCEC-7	9.25	32,653
November 25, 1997	PRV	10.25	152,978
April 10, 2007	BCCP-18	9.12	25,055
May 8, 2007	BCCP-19	9.13	59,286
June 10, 2007	BCCP-20	9.88	68,932
July 10, 2007	BCCP-21	9.83	22,187
August 10, 2007	BCCP-22	9.72	14,430
September 1, 2007	BCCP-23	10.42	4,763
December 10, 2007	PRW	10.14	746

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

	In Thousands Canadian Funds $
1989	78,780
1990	322,343
1991	49,684
1992	171,358
1993	44,341

15. Net Equity (Deficiency)

	In Thousands 1988 $	 1987 $
Net equity (deficiency) — beginning of year	(3,712,481)	(2,551,761)
Net expenditure for the year	(48,028)	(1,160,720)
Net equity (deficiency) — end of year	(3,760,509)	(3,712,481)

Included in the net equity (deficiency) of these financial statements are $743 million set aside by special disposition of the Legislature for Special Funds (1987—$151 million).

16. Contingencies and Commitments

(a) Guaranteed debt

Guaranteed debt as at March 31, 1988, totalled $9.9 billion (1987—$10.5 billion). Included in guaranteed debt is that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government, under the authority of a statute, as to net principal or redemption provisions and accrued interest or dividends outstanding. *See* Statement of Guaranteed Debt on B 34 for details.

(b) Contingent liabilities

(i) Pending litigation

The Government is a defendant in legal actions which may give rise to future liabilities. Because the outcome of the litigation is uncertain, no amount has been recorded in these financial statements.

The Government has a contingent liability in respect of the following summary of cases where the estimated or known claim is or exceeds $100,000:

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

16. Contingencies and Commitments—Continued

- a number of airline companies are challenging the Government's authority to tax the fuel used in their operations and to collect sales tax on aircraft; the amount in issue exceeds $30 million;
- claims of $2.5 million for the alleged negligence of ambulance drivers;
- claims of $2 million and $2.5 million have been made regarding motor vehicle accidents;
- claims of $2 million and $2.3 million have been made regarding construction disputes;
- claims of $2.5 million for hospital insurance;
- claims of $35 million against assessments for social services tax;
- various claims totalling $9.2 million against assessments for motive fuel, hotel room, logging, mining, and corporation capital taxes; and
- various legal actions totalling $18.5 million (each between $100,000 and $2 million) representing claims of damages to persons and property or other miscellaneous claims.

(ii) Other contingent liabilities

The Government also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Where indemnities are for explicit quantifiable loans, the amounts are included in the statement of guaranteed debt. Because all other amounts are uncertain, no liability for them has been recorded in these financial statements.

(c) Commitments

At the end of each year Government has a number of general commitments outstanding for ongoing programs and operations. Such future expenditures are charged to the appropriation in the year in which the work or service is performed. Commitments for capital contracts totalled approximately $126 million (1987 — $125 million), and commitments for extraordinary programs totalled approximately $624 million (1987 — $535 million).

(d) Superannuation and pension actuarial valuations

(i) The Government has statutory responsibilities, in the event of a deficiency existing between the money available for payment of superannuation allowances and the amounts necessary to meet the payment of these allowances equal to:

- the amount of the deficiency in the case of the Public Service Superannuation Fund; and
- the amount specified by the Lieutenant Governor in Council in the case of the College Pension Fund.

(ii) The funds administered by the Superannuation Commission require that periodic actuarial valuations be performed for the purpose of assessing the adequacy of contribution rates and the financial position of the funds. The reporting of an unfunded liability by the actuary indicates that a deficiency of funds may arise in the future if the actions recommended by the actuary are not followed.

The unfunded liabilities as shown in the latest actuarial valuations for the above funds are provided for information purposes:

	In Thousands	
	Public Service Superannuation as at March 31, 1987	College Pension as at August 31, 1985
	$	$
Total actuarial liability	4,480,089	310,126
Less assets:		
Fund	(2,339,150)	(130,113)
Present value of future contributions	(1,684,877)	(119,122)
Unfunded liability	456,062	60,891

See Section G of the Public Accounts for further details of these plans.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

17. Trust Funds

Amounts held and administered by the Government at the end of the fiscal year were comprised of the following:

	In Thousands	
	1988	1987
	$	$
Superannuation, Pension and Long-term Disability Funds[1] — administered by the Superannuation Commission	9,479,856	8,387,393
Sinking Funds[1,2] — administered by the Provincial Treasury	3,107,878	2,990,284
Investment Funds of Crown Corporations and Agencies — administered by the Provincial Treasury	245,275	190,574
Public Trustee and Official Administrators — administered by government officials	255,284	237,549
Supreme and County Court Rules (Suitors' Funds) — administered by the Courts	75,316	73,085
Investment Funds of Workers' Compensation Board[1] — administered by the Workers' Compensation Board	2,718,955	2,546,619
Other Trust Funds — administered by various government officials	60,553	44,746
	15,943,117	14,470,250

Trust funds include amounts held and administered in trust, over which the Government has no power of appropriation.

Cash and investments of the Trust Funds are managed or held by Provincial Treasury, Ministry of Finance and Corporate Relations.

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[1] *See* Volume III of the Public Accounts for the latest audited financial statements of Superannuation and Pension Funds, the Workers' Compensation Board and most entities whose sinking funds are administered by Provincial Treasury.

[2] Sinking funds include investments held by Financing Authorities (which have essentially the same purpose as sinking funds) and the sinking funds relating to Public Debt as disclosed in Notes 13 and 14 of these financial statements.

18. Subsequent events

(a) Privatization

In October 1987, the Government announced a program to privatize certain of its operations. The following privatization transactions have occurred since March 31, 1988:

- False Creek lands were sold by British Columbia Enterprise Corporation on April 27, 1988, for $145,010,000. This amount was distributed to the Province as the shareholder pursuant to a resolution of the Directors by payment of $50,000,000 cash and assignment of financial instruments. This represented a $5,352,140 dividend to the Privatization Benefits Fund and $139,657,860 return of contributed surplus to the Province.
- Various B.C. Hydro assets have been sold including the mainland gas division sale for $785 million announced on July 20, 1988. Upon finalization, the gain on the sale will be paid over to the Province in the form of a dividend to the Privatization Benefits Fund.
- The Government is entering into agreements to dispose of certain assets and undertakings related to existing highways maintenance operations. Proceeds from the sale of fixed assets of the Government will represent revenue to the Province while the ongoing maintenance costs will be restricted, in future, to contract payments rather than a combination of salaries, operating costs and fixed assets acquisitions.

(b) *Knowledge Network of the West Communications Authority*

Pursuant to the *Open Learning Agency Act* (S.B.C. 1987, chap. 62, sec. 17 (2)) and Order-in-Council 25-1988, this corporation has been dissolved and all property and rights transferred to and vested in the Open Learning Agency on April 1, 1988. The new agency is to use open learning methods to provide educational programs and services and will develop and promote open learning education. A portion of its programs and services will be those of the former Knowledge Network.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

18. Subsequent events—Continued

(c) *Medical Services Commission of British Columbia (the Commission)*

Until April 1, 1988, all premiums under the Medical Services Plan (the Plan) were remitted to the Commission, with any deficiency in the funds to meet the necessary expenditures to be paid out of the Consolidated Revenue Fund. After that date, amendments to the *Medical Service Act Regulations*, approved by Order-in-Council dated March 25, 1988, require that premiums under the Medical Services Plan now be remitted to the Minister of Finance and Corporate Relations. Money is now to be paid out of the Consolidated Revenue Fund of the Province of British Columbia to meet all the needed expenditures for the operation of the Plan.

19. Comparatives

Certain of the comparative figures for the previous year have been reclassified to conform with the current year's presentation. These reclassifications have had no effect on the operating results or fund balances as previously reported.

COMBINED FINANCIAL STATEMENTS
STATEMENT OF COMBINED REVENUE BY SOURCE
COMPARISON OF ESTIMATES TO ACTUAL
FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	In Thousands		
	1988		1987
	Estimated	Actual	Actual
Taxation Revenue	$	$	$
Personal income	2,562,000	2,789,965	2,248,096
Corporation income	387,000	473,407	280,647
Social service	1,393,000	1,463,087	1,540,776
Gasoline	360,000	380,889	317,884
Motive fuel use	60,000	68,595	55,513
Tobacco	223,000	227,795	212,015
Property purchase	168,000	140,130	669
Corporation capital	49,000	56,761	87,205
Property (rural areas)	41,000	42,741	35,799
Insurance premium	58,000	54,215	34,681
Hotel room	35,000	40,028	41,484
Horse racing	7,000	6,682	6,720
Succession and gift	0	10	16
Total Taxation Revenue	**5,343,000**	**5,744,305**	**4,861,505**
Natural Resource Revenue			
Petroleum and Natural Gas			
Natural gas royalties	62,000	53,665	57,215
Permits and fees	67,000	92,595	68,093
Petroleum royalties	50,000	51,851	44,958
	179,000	198,111	170,266
Minerals			
Mining tax	500	792	445
Mineral resource tax	2,900	10,418	8,016
Mineral land tax	12,000	12,215	16,507
Coal, minerals and metals royalties	16,700	22,795	24,087
Miscellaneous mining receipts	7,900	7,366	6,530
	40,000	53,586	55,585
Forests			
Logging tax	7,000	31,531	8,841
Timber sales	73,000	350,506	103,380
Small Business Enterprise Special Account	21,500	47,227	28,972
Timber royalties	14,000	26,731	13,133
Lumber export tax	350,000	278,999	21,268
Forest scaling fees	2,500	3,901	4,231
Miscellaneous forests receipts	6,000	5,686	5,481
	474,000	744,581	185,306
Other			
Water rentals and recording fees	212,000	214,971	235,643
Wildlife Act — fees and licences	13,000	11,709	10,791
	225,000	226,680	246,434
Total Natural Resource Revenue	**918,000**	**1,222,958**	**657,591**
Other Revenue			
Sales and services			
Lottery Special Fund	175,000	165,064	160,706
Farm Income Assurance Special Fund	28,000	12,076	15,972
Land registry fees	15,000	17,661	37,102
Real estate earnings of the Crown Land Special Account	22,400	28,676	25,202
Coquihalla highways tolls	14,000	15,022	11,061
Motor vehicle lien and search fees	7,200	7,060	6,734
Ambulance service	8,000	7,314	8,298
Sheriff's fees	1,300	1,173	1,142
Property tax collection fees	2,500	2,813	2,517
Vital statistics fees	3,000	3,022	2,861
Hearing aid equipment	2,600	3,532	2,408
Sales of maps and airphotos	500	530	447
Miscellaneous sales and services	7,500	8,533	7,424
	287,000	272,476	281,874

COMBINED FINANCIAL STATEMENTS
STATEMENT OF COMBINED REVENUE BY SOURCE
COMPARISON OF ESTIMATES TO ACTUAL
FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

	In Thousands		
	1988		1987
	Estimated	Actual	Actual
Licences and permits	$	$	$
Motor vehicle licences and permits	149,000	136,821	129,030
Liquor Licencing Branch — permits and fees	17,000	18,477	19,273
Companies Branch	8,600	11,971	8,811
Safety inspection fees	6,700	7,532	6,698
Filing fees — Court Services	9,700	3,757	3,852
Camp-site permits and park use	5,000	4,348	3,769
Fire Service Act — fees, etc.	4,000	5,073	4,874
Insurance, brokers and real estate	2,900	4,242	2,585
Agricultural licences	800	702	887
Trade and dealer licences	300	270	248
Mobile home registry	600	692	536
Miscellaneous licences and permits	3,400	5,587	2,844
	208,000	199,472	183,407
Interest from investments	62,000	68,355	53,169
Miscellaneous			
Fines and penalties	24,000	24,409	17,878
Maintenance of children	17,200	16,535	14,101
Other maintenance receipts	1,600	1,207	1,357
Insurance claim receipts	9,700	11,773	10,622
Municipal share of joint-service programs	3,500	4,595	2,505
Other miscellaneous	25,000	31,566	24,613
	81,000	90,085	71,076
Total Other Revenue	**638,000**	**630,388**	**589,526**
Contributions from Government Enterprises			
Liquor Distribution Branch — net income	432,000	425,040	424,787
British Columbia Railway Company — dividend	10,000	20,615	10,307
British Columbia Ferry Corporation — dividend	0	1,175	9,866
British Columbia Buildings Corporation — dividend	10,000	22,965	2,645
Total Contributions from Government Enterprises	**452,000**	**469,795**	**447,605**
Contributions from the Federal Government			
Established Programs Financing	1,228,000	1,215,270	1,205,263
Canada Assistance Plan	629,000	630,958	611,267
National Training Act	41,000	38,732	42,292
Economic development	42,700	35,759	22,627
Transportation and highways	15,900	17,084	15,378
Public Utilities Income Tax Transfer Act	3,000	10,026	12
Statutory subsidies	2,500	2,516	2,516
Reciprocal Taxation Agreement	19,500	24,091	21,097
Other payments	37,400	45,495	72,445
Fiscal Stabilization Program	0	0	360
Total Contributions from the Federal Government	**2,019,000**	**2,019,931**	**1,993,257**
Total Combined Revenue	**9,370,000**	**10,087,377**	**8,549,484**

Revenue by source is reported after the deduction of amounts considered uncollectible. These amounts totalled $7,982,082 in 1987/88 and were comprised of reductions of Taxation $6,182,192, Natural Resources $7,740 and Other Revenue $1,792,150.

Personal and Corporation income tax revenues are recorded after reduction for tax credits of $6,590,549 and $45,415,389 respectively. The types of tax credits reducing Provincial income tax revenues are for foreign taxes, logging taxes, small business employment, venture capital, political contributions, Housing and Employment Development bond interest, low income tax rebates and royalty tax rebates.

Petroleum and Natural Gas Permits and Fees are net of offsets allowed under section 68 of the *Petroleum and Natural Gas Act* of $2,049,000.

Timber sales are net of stumpage offsets allowed under section 88 of the *Forest Act* of $103,634,000 (Estimates $105,730,000).

The British Columbia Liquor Distribution Branch revenue is the net income of the Branch after adjusting for the difference in the accounting policies of the Branch from those of the Government. Revenue of $425,040,000 is comprised of gross revenue of $1,063,852,000 less cost of merchandise sold and operating expenses of $640,556,000 and an accounting policy adjustment of $1,744,000 for the decrease in value of fixed assets. (Refer to Section F of the Public Accounts for complete financial statements of the Branch).

COMBINED FINANCIAL STATEMENTS

STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1988

Vote No.	Description	Total Appropriations				
		Estimated for the 12 Months Ending March 31, 1988	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	Legislation					
1	Legislation	14,201,820				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, sec. 64)		1,520,569	15,722,389	15,722,389	
		14,201,820	**1,520,569**	**15,722,389**	**15,722,389**	
	Auditor General					
2	Auditor General	4,465,920				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 20(3))		24,611	4,490,531	4,490,531	
		4,465,920	**24,611**	**4,490,531**	**4,490,531**	
	Ombudsman					
3	Ombudsman	**2,493,970**		**2,493,970**	**2,459,213**	**34,757**
	Office of the Premier					
4	Office of the Premier	2,733,090		2,733,090	2,689,882	43,208
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from Ministry of Intergovernmental Relations (Vote 45)		859,478	859,478	777,922	81,556
	—Transfer from Ministry of Provincial Secretary and Government Services (Vote 53)		3,684,000	3,684,000	3,330,476	353,524
		2,733,090	**4,543,478**	**7,276,568**	**6,798,280**	**478,288**
	Ministry of Advanced Education and Job Training					
5	Minister's Office	184,709		184,709	177,173	7,536
6	Ministry Operations	695,466,020				
	Supplement — Special Warrant No. 3		10,000,000	705,466,020	697,581,613	7,884,407
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from Ministry of Economic Development (Vote 18)		5,984,900	5,984,900	5,967,188	17,712
	—Transfer from Ministry of Economic Development (Vote 19)		4,592,500	4,592,500	2,003,745	2,588,755
	Special Accounts—					
	Education Excellence Appropriation Act (S.B.C. 1986, chap. 6, sec. 1) — Fund for Excellence in Education	105,240,000		105,240,000	100,240,000	5,000,000
		800,890,729	**20,577,400**	**821,468,129**	**805,969,719**	**15,498,410**

	Ministry of Agriculture and Fisheries					
7	Minister's Office	241,948		241,948	229,880	12,068
8	Ministry Operations	61,447,939		61,447,939	45,684,080	15,763,859
9	Milk Board	367,973		367,973	367,872	101
10	Provincial Agricultural Land Commission	1,142,802		1,142,802	1,116,013	26,789
11	Agri-Food Regional Development Subsidiary Agreement (ERDA)	8,130,000		8,130,000	3,507,744	4,622,256
	Statutory—					
	Cattle Horn Act (R.S.B.C. 1979, chap. 44, sec. 7) — Livestock Improvement		16,015	16,015	16,015	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 58 (3)) — Southern Interior Beef Corporation		68,220	68,220	68,220	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 58 (3)) — McLean Fitzpatrick Fruit Packers		1,000,000	1,000,000	1,000,000	
	Special Accounts—					
	Agricultural Credit Act (R.S.B.C. 1979, chap. 8, sec. 5 (2)) — Agricultural Land Development		158,640	158,640	158,640	
	Farm Product Industry Act (R.S.B.C. 1979, chap. 124, sec. 16) — Farm Products Industry Improvement		257,980	257,980	257,980	
	Livestock Protections Act (R.S.B.C. 1979, chap. 245, sec. 14) — Livestock Protection	20,000		20,000	13,491	6,509
	Special Funds—					
	Farm Income Insurance Act (R.S.B.C. 1979, chap. 123, sec. 2) — Farm Income Assurance	56,000,000		56,000,000	25,125,977	30,874,023
	Less transfer to the Farm Income Assurance Fund from Vote 8	(28,000,000)		(28,000,000)	(12,075,856)	(15,924,144)
		99,350,662	**1,500,855**	**100,851,517**	**65,470,056**	**35,381,461**
	Ministry of Attorney General					
12	Minister's Office	219,629		219,629	217,398	2,231
13	Ministry Operations	281,398,956				
	Supplement — Special Warrant No. 4		6,030,000			
	Statutory—					
	Criminal Injury Compensation Act (R.S.B.C. 1979, chap. 83, sec. 3 (1))		1,438,099			
	Crown Proceeding Act (R.S.B.C. 1979, chap. 86, sec. 14 (4))		14,431	288,881,486	288,881,486	
14	Emergency Assistance	2,403,500		2,403,500	329,941	2,073,559
15	Judiciary	16,223,941				
	Supplement — Special Warrant No. 5		1,897,000	18,120,941	18,023,650	97,291
16	Corrections	125,553,653				
	Supplement — Special Warrant No. 6		400,000	125,953,653	125,666,379	287,274
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — net of recoveries					
	Inquiry Act (R.S.B.C. 1979, chap. 198, sec. 18) — Vancouver Police Inquiry		26,844	26,844	26,844	

COMBINED FINANCIAL STATEMENTS

STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

Vote No.	Description	Total Appropriations: Estimated for the 12 Months Ending March 31, 1988	Total Appropriations: Other Authorizations	Total Appropriations: Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	Police Act (R.S.B.C. 1979, chap. 331, sec. 7) — Video Camera Use Study		98,028	98,028	98,028	
	Police Act (R.S.B.C. 1979, chap. 331, sec. 44) — Fullerton Inquiry		4,324	4,324	4,324	
	Expropriation Act (R.S.B.C. 1979, chap. 117, sec. 54) — Property acquisition		195,501	195,501	195,501	
	Flood Relief Act (R.S.B.C. 1979, chap. 138, sec. 2) — July flood, Northeast B.C.		2,028,447	2,028,447	2,028,447	
	Emergency Program Act (S.B.C. 1986, chap. 106, sec. 4)		3,200	3,200	3,200	
	Special Accounts—					
	Land Title Act (R.S.B.C. 1979, chap. 219, sec. 274 (2)) — Land Titles Survey	9,000		9,000	328	8,672
		425,808,679	**12,135,874**	**437,944,553**	**435,475,526**	**2,469,027**
	Ministry of Economic Development					
17	Minister's Office	269,370		269,370	251,420	17,950
18	Ministry Operations	59,260,467				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to Ministry of Advanced Education and Job Training		(5,984,900)			
	—Transfer to Ministry of Intergovernmental Relations		(360,000)	52,915,567	42,164,661	10,750,906
19	Economic and Regional Development Subsidiary Agreement (ERDA)	20,535,500				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14) — Transfer to Ministry of Advanced Education and Job Training		(4,592,500)	15,943,000	5,758,457	10,184,543
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14) — Transfer from Ministry of Finance and Corporate Relations (Vote 32)		4,306,923	4,306,923	3,966,704	340,219
	Public Service Benefit Plan Act (R.S.B.C. 1979, chap. 344, sec. 5) — B.C. Medical Expenses — B.C. House, London, England		14,541	14,541	14,541	
	Ocean Falls Corporation Repeal Act (R.S.B.C. 1979, chap. 304.1)		4,617	4,617	4,617	

	Special Accounts—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from Ministry of Finance and Corporate Relations:					
	Purchasing Commission Act (R.S.B.C. 1979, chap. 350, sec. 23.1 (3)) — Purchasing Commission Working Capital Account					
	—*Purchasing Commission Act* (R.S.B.C. 1979, chap. 350, sec. 23.1 (3))		6,231,406	6,231,406	6,231,406	
	Special Funds—					
	Industrial Development Fund Act (R.S.B.C. 1979, chap. 194, sec. 1 (3)) — Industrial Development Subsidiary Agreement Loan Repayment Revolving Fund	1,600,000		1,600,000	1,219,405	380,595
	Low Interest Loan Assistance Revolving Fund Act (S.B.C. 1985, chap. 44, sec. 2) — Low Interest Loan Assistance Revolving Fund	1,000,000	564,388	1,564,388	1,564,388	
		82,665,337	**184,475**	**82,849,812**	**61,175,599**	**21,674,213**
	Ministry of Education					
20	Minister's Office	225,259		225,259	199,354	25,905
21	Ministry Operations	25,468,385				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 23 (3))		(113,340)	25,355,045	24,980,932	374,113
22	Public Schools Education	1,189,387,212				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 20 (3))		10,171,093	1,199,558,305	1,199,558,305	
23	Independent Schools	39,037,153				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 23 (3))		965,908	40,003,061	40,003,061	
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — net of recoveries					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 24 (1) (c)) — Interest on property tax refunds		1,024,722	1,024,722	1,024,722	
	Education (Interim) Finance Act (S.B.C. 1982, chap. 2, sec. 20 (6))		810,051	810,051	810,051	
	Teaching Profession Act (S.B.C. 1987, chap. 19, sec. 42)		513,154	513,154	513,154	
	Special Accounts—					
	Education Excellence Appropriation Act (S.B.C. 1986, chap. 6, sec. 1) — Fund for Excellence in Education	112,990,000		112,990,000	110,970,600	2,019,400
		1,367,108,009	**13,371,588**	**1,380,479,597**	**1,378,060,179**	**2,419,418**

COMBINED FINANCIAL STATEMENTS

STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

Vote No.	Description	Total Appropriations				
		Estimated for the 12 Months Ending March 31, 1988	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
	Ministry of Energy, Mines and Petroleum Resources	$	$	$	$	$
24	Minister's Office	235,549		235,549	234,077	1,472
25	Ministry Operations	23,203,101		23,203,101	22,000,971	1,202,130
26	British Columbia Utilities Commission	1,407,430				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 20(3))		477,262	1,884,692	1,884,692	
27	Fort Nelson Indian Band Mineral Revenue Sharing Agreement	800,000		800,000	397,234	402,766
28	Mineral Development and Exploration Incentives	7,300,000		7,300,000	6,968,911	331,089
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from Ministry of Intergovernmental Relations (Vote 45)		858,618	858,618	847,229	11,389
	—Transfer from Ministry of Intergovernmental Relations (Vote 53)		5,951,652	5,951,652	5,278,449	673,203
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 24 (1) (c)) — Interest on Revenue refunds		30,139	30,139	30,139	
	Mines Act (S.B.C. 1980, chap. 28, sec. 15 (2)) — Mine Improvement		3,451	3,451	3,451	
		32,946,080	**7,321,122**	**40,267,202**	**37,645,153**	**2,622,049**
	Ministry of Environment and Parks					
29	Minister's Office	224,378		224,378	223,346	1,032
30	Ministry Operations	135,466,990		135,466,990	131,207,281	4,259,709
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — net of recoveries					
	Environment Management Act (R.S.B.C. 1979, chap. 14, secs. 5 and 6) — Pesticide Spill		23,788	23,788	23,788	
	Special Accounts—					
	Wildlife Act (S.B.C. 1982, chap. 57, sec. 11 (4)) — Habitat Conservation Fund	1,433,000	55,090	1,488,090	1,488,090	
		137,124,368	**78,878**	**137,203,246**	**132,942,505**	**4,260,741**

	Ministry of Finance and Corporate Relations					
31	Minister's Office	283,435		283,435	255,481	27,954
32	Ministry Operations	67,570,778				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14) — Transfer to Ministry of Economic Development		(4,306,923)	63,263,855	61,286,399	1,977,456
33	Compensation Stabilization Program	729,387		729,387	446,727	282,660
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 24 (1) (c)) — Interest on Revenue Refunds		1,201,476	1,201,476	1,201,476	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 21) — Special Warrant No. 2: Operations, Administration and Expenses of 8 Portfolios of Ministers of State		8,000,000	8,000,000	952,348	7,047,652
	Insurance (Captive Company) Act (S.B.C. 1987, chap. 9, sec. 15) — Administration costs		71,313	71,313	71,313	
	Property Purchase Tax Act (S.B.C. 1987, chap. 20, sec. 27) — Administration Costs		950,000	950,000	950,000	
	Unclaimed Money Act (R.S.B.C. 1979, chap. 418, sec. 15)		150,822	150,822	150,822	
	Special Accounts—					
	Purchasing Commission Act (R.S.B.C. 1979, chap. 350, sec. 23.1 (3)) — Purchasing Commission Working Capital Account					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14) — Transfer to Ministry of Economic Development					
	Special Funds—					
	Resource Revenue Stabilization Fund Act (S.B.C. 1982, chap. 24, sec. 4) — Resource Revenue Stabilization Fund		1,147,863,117	1,147,863,117	1,147,863,117	
	Less transfer to the General Fund from the Resource Revenue Stabilization Fund		(1,147,863,117)	(1,147,863,117)	(1,147,863,117)	
		68,583,600	**6,066,688**	**74,650,288**	**65,314,566**	**9,335,722**
	Ministry of Forests and Lands					
34	Minister's Office	210,165		210,165	187,203	22,962
35	Ministry Operations	267,798,152		267,798,152	261,927,829	5,870,323
36	Fire Suppression Program	60,000,000				
	Statutory—					
	Forest Act (R.S.B.C. 1979, chap. 140, sec. 124 (4))		9,608,468	69,608,468	69,608,468	
37	Forest Resource Development Subsidiary Agreement (ERDA)	68,883,468		68,883,468	66,067,317	2,816,151
	Statutory—					
/	*Financial Administration Act* (S.B.C. 1981, chap. 15, sec. 21) — Special Warrant No. 1 — Compensation to Employees and Contractors of Beban Logging Company		1,200,000	1,200,000	1,200,000	
	Special Accounts—					
	Forest Act (R.S.B.C. 1979, chap. 140, sec. 87.1) — Small Business Enterprise	21,420,000	2,587,711	24,007,711	24,007,711	
	Special Funds—					
	Forest Stand Management Fund Act (S.B.C. 1986, chap. 8, sec. 3) — Forest Stand Management	19,500,000		19,500,000	18,795,458	704,542
	Less transfer to the Special Fund from Vote 35	(13,000,000)		(13,000,000)	(13,000,000)	
		424,811,785	**13,396,179**	**438,207,964**	**428,793,986**	**9,413,978**

COMBINED FINANCIAL STATEMENTS

STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

Vote No.	Description	Total Appropriations			Actual Expenditure	Net Under Expenditure
		Estimated for the 12 Months Ending March 31, 1988	Other Authorizations	Total		
	Ministry of Health	$	$	$	$	$
38	Minister's Office	220,893		220,893	220,502	391
39	Management Operations	70,114,417		70,114,417	67,309,953	2,804,464
40	Pharmacare	155,990,000				
	Supplement — Special Warrant No. 7		3,750,000	159,740,000	157,473,941	2,266,059
41	Medical Services Commission	540,373,948				
	Statutory—					
	Medical Services Commission Act (R.S.B.C. 1979, chap. 255, sec. 12)		23,626,553	564,000,501	564,000,501	
42	Preventive and Community Care Services	245,420,959				
	Supplement — Special Warrant No. 8		3,562,000	248,982,959	246,285,981	2,696,978
43	Institutional Services	1,923,913,040				
	Supplement — Special Warrant No. 9		29,468,000			
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 23 (3))		449,833	1,953,830,873	1,953,830,873	
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — net of recoveries					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — Veterans' Hospital Agreement		11,710	11,710	11,710	
	Special Accounts—					
	Health Improvement Appropriation Act (S.B.C. 1986, chap. 9, sec. 1) — Health Improvement Fund	240,000,000		240,000,000	240,000,000	
		3,176,033,257	**60,868,096**	**3,236,901,353**	**3,229,133,461**	**7,767,892**
	Ministry of Intergovernmental Relations					
44	Minister's Office	148,133				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14) — Transfer to Ministry of Transportation and Highways		(148,133)			
45	Ministry Operations	2,457,460				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to Ministry of Transportation and Highways		(739,364)			
	—Transfer to Ministry of Energy, Mines and Petroleum Resources		(858,618)			
	—Transfer to Office of the Premier		(859,478)			

	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer from Ministry of Provincial Secretary and Government Services (Vote 53)		5,951,652			
	—Transfer to Ministry of Energy, Mines and Petroleum Resources (Vote 53)		(5,951,652)			
	—Transfer from Ministry of Economic Development (Vote 18)		360,000			
	—Transfer to Ministry of Transportation and Highways (Vote 18)		(360,000)			
	Special Funds—					
	Funds Control Act (R.S.B.C. 1979, chap. 146, sec. 3) — First Citizens Fund	1,973,000				
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14) — Transfer to Ministry of Transportation and Highways		(1,973,000)			
		4,578,593	**(4,578,593)**			
	Ministry of Labour and Consumer Services					
46	Minister's Office	236,168		236,168	224,869	11,299
47	Ministry Operations	22,227,574		22,227,574	18,872,539	3,355,035
	Statutory—					
	Industrial Relations Reform Act (S.B.C. 1987, chap. 24, sec. 67) — Administration Costs		5,940,149	5,940,149	5,940,149	
		22,463,742	**5,940,149**	**28,403,891**	**25,037,557**	**3,366,334**
	Ministry of Municipal Affairs					
48	Minister's Office	235,919		235,919	233,282	2,637
49	Ministry Operations	26,379,686		26,379,686	26,208,054	171,632
50	Municipal Revenue Sharing	231,000,000		231,000,000	231,000,000	
51	Transit Services	158,635,000		158,635,000	158,578,626	56,374
	Statutory—					
	Financial Administration Act (S.B.C 1981, chap. 15, sec. 14) — Provision for Doubtful Accounts		223,729	223,729	223,729	
	Special Accounts—					
	Special Appropriations Act (S.B.C. 1982, chap. 40, sec. 2 (1)) — Downtown Revitalization	250,000	173,409	423,409	423,409	
	University Endowment Lands Act (R.S.B.C. 1979, chap. 420, sec. 3 (1)) — University Endowment Lands Administration	1,542,000		1,542,000	1,462,795	79,205
	Special Funds—					
	Revenue Sharing Act (R.S.B.C. 1979, chap. 368, sec. 3) — Revenue Sharing Fund	230,750,000		230,750,000	228,437,657	2,312,343
	Less Transfer to the Special Fund from Vote 50	(231,000,000)		(231,000,000)	(231,000,000)	
		417,792,605	**397,138**	**418,189,743**	**415,567,552**	**2,622,191**

COMBINED FINANCIAL STATEMENTS

STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

		Total Appropriations				
Vote No.	Description	Estimated for the 12 Months Ending March 31, 1988	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
	Ministry of Provincial Secretary and Government Services	$	$	$	$	$
52	Minister's Office	206,621		206,621	196,526	10,095
53	Ministry Operations	54,368,021				
	Supplement — Special Warrant No. 10		950,000			
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14)					
	—Transfer to Office of the Premier		(3,684,000)			
	—Transfer to Ministry of Intergovernmental Relations		(5,951,652)	45,682,369	44,305,775	1,376,594
54	Pensions and Employee Benefits Administration	10		10		10
55	Pensions and Employee Benefits Contributions	10				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 20(3))		539,033	539,043	539,043	
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — net of recoveries					
	Public Service Act (R.S.B.C.1979, chap. 343, sec. 49 (3))		4,990,156	4,990,156	4,990,156	
	Pension (Public Service) Amendment Act (S.B.C. 1987, chap. 63, sec. 1 and 2)		42,250,000	42,250,000	42,250,000	
	Elections Act (R.S.B.C. 1979, chap. 103, sec. 191) — 1986 Election Expenses — Boundary Similkameen		180	180	180	
	Inquiry Act (R.S.B.C. 1979, chap. 198, sec. 18)					
	—Royal Commission on Education		1,919,281	1,919,281	1,919,281	
	—Royal Commission on Electoral Boundaries		753,479	753,479	753,479	
	—Social Housing Commission		2,627	2,627	2,627	
	—Royal Commission on Coquihalla Highway Costs		452,735	452,735	452,735	
	—Royal Commission on Okalla Prison		58,074	58,074	58,074	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 58)					
	—Insurance Claims: Health Care Facilities		144,388	144,388	144,388	
	—Insurance Claims and Administration: School Districts and Colleges		15,000	15,000	15,000	
		54,574,662	**42,439,301**	**97,013,963**	**95,627,264**	**1,386,699**

	Ministry of Social Services and Housing					
56	Minister's Office	216,355		216,355	211,932	4,423
57	Ministry Operations	1,385,939,454		1,385,939,454	1,373,235,549	12,703.905
58	British Columbia Home Program	10		10		10
	Statutory—					
	Special Accounts—					
	Home Conversion and Leasehold Loan Act (R.S.B.C. 1979, chap. 170, sec. 17 (1)), and *Home Purchase Assistance Act* (R.S.B.C. 1979, chap. 172, sec. 21 (1)) — Provincial Home Acquisition	5,275,000	264,853	5,539,853	5,539,853	
		1,391,430,819	**264,853**	**1,391,695,672**	**1,378,987,334**	**12,708,338**
	Ministry of Tourism, Recreation and Culture					
59	Minister's Office	228,460		228,460	217,502	10,958
60	Ministry Operations	50,675,347				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec 23 (3))		(375,289)	50,300,058	50,166,384	133,674
	Statutory—					
	Special Accounts—					
	Special Appropriations Act (S.B.C. 1982, chap. 40, sec. 7 (1)) — Provincial Computerization of Libraries	292,000		292,000	28,345	263,655
	Special Funds—					
	Funds Control Act (R.S.B.C. 1979, chap. 146, sec. 6) — British Columbia Cultural Fund	1,594,000		1,594,000	1,399,806	194,194
	Funds Control Act (R.S.B.C. 1979, chap. 146, sec. 4) — Physical Fitness and Amateur Sports Fund	1,650,000		1,650,000	1,649,585	415
		54,439,807	**(375,289)**	**54,064,518**	**53,461,622**	**602,896**
	Ministry of Transportation and Highways					
61	Minister's Office	235,299		235,299	228,309	6,990
62	Administration and Support Services	14,759,725		14,759,725	14,539,248	220,477
63	Highway Operations Department	726,974,820				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec 23 (3))		(4,999,705)	721,975,115	671,357,302	50,617,813
64	Motor Vehicle Department	33,961,110		33,961,110	30,104,997	3,856,113
65	Transportation Policy Department	86,909,512		86,909,512	86,196,032	713,480
	Statutory—					
	Constitution Act (R.S.B.C 1979, chap. 62, secs. 13 and 14)					
	—Transfer from Ministry of Intergovernmental Relations (Vote 18)		360,000	360,000	360,000	
	—Transfer from Ministry of Intergovernmental Relations (Vote 44)		148,133	148,133	142,051	6,082
	—Transfer from Ministry of Intergovernmental Relations (Vote 45)		739,364	739,364	645,527	93,837

COMBINED FINANCIAL STATEMENTS

STATEMENT OF COMPARISON OF ESTIMATED APPROPRIATIONS TO ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

Vote No.	Description	Total Appropriations			Actual Expenditure	Net Under Expenditure
		Estimated for the 12 Months Ending March 31, 1988	Other Authorizations	Total		
		$	$	$	$	$
	Indian Cut-Off Lands Dispute Act (S.B.C. 1982, chap. 50, sec. 5)		124,000	124,000	124,000	
	Special Funds—					
	Constitution Act (R.S.B.C 1979, chap. 62, secs. 13 and 14) — Transfer from Ministry of Intergovernmental Relations — *Funds Control Act* (R.S.B.C. 1979, chap. 146, sec. 3) — First Citizens' Fund		1,973,000	1,973,000	1,673,728	299,272
		862,840,466	**(1,655,208)**	**861,185,258**	**805,371,194**	**55,814,064**
	Other Appropriations					
66	Management of the Public Debt (Ministry of Finance and Corporate Relations)	530,200,000		530,200,000	525,277,283	4,922,717
67	Contingencies (All Ministries) (Ministry of Finance and Corporate Relations)	50,000,000				
	Supplement — Special Warrant No. 11		15,000,000	65,000,000	50,107,855	14,892,145
	Statutory—					
	Special Accounts—					
	Ministry of Lands, Parks and Housing Act (R.S.B.C. 1979, chap. 277, sec. 7 (2)) — Crown Land	21,962,000		21,962,000	21,932,832	29,168
	Special Funds—					
	Lottery Act (R.S.B.C. 1979, chap. 249, secs. 6 and 7) — Lottery Fund	170,500,000		170,500,000	120,111,811	50,388,189
	Less Transfer to Budget Stabilization Fund from Lottery Fund Account		(25,528,582)	(25,528,582)	(25,528,582)	
		772,662,000	**(10,528,582)**	**762,133,418**	**691,901,199**	**70,232,219**
	Total Consolidated Revenue Fund Expenditure	**10,220,000,000**	**173,493,582**	**10,393,493,582**	**10,135,404,885**	**258,088,697**
	Summary					
	Voted Expenditure	9,497,000,000	5,723,665	9,502,723,665	9,357,392,812	145,330,853
	Statutory—					
	Special Accounts	509,000,000	9,673,999	518,673,999	511,267,390	7,406,609
	Special Funds	486,000,000	1,148,482,595	1,634,482,595	1,549,329,022	85,153,573
	Special Warrants		80,257,000	80,257,000	44,135,194	36,121,806
	Various Acts		102,748,022	102,748,022	102,748,022	
	Less Inter-Fund Transfers	(272,000,000)	(1,173,391,699)	(1,445,391,699)	(1,429,467,555)	(15,924,144)
	Total Consolidated Revenue Fund Expenditure	**10,220,000,000**	**173,493,582**	**10,393,493,582**	**10,135,404,885**	**258,088,697**

For details of amounts referred to under section 22 of the *Financial Administration Act*, *see* Section D of the Public Accounts.

COMBINED FINANCIAL STATEMENTS
STATEMENT OF COMBINED EXPENDITURE BY GROUP ACCOUNT CLASSIFICATION
FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	In Thousands	
	1988	1987
	$	$
Grants and contributions	7,476,808	7,291,702
Salaries and benefits	1,272,552	1,175,285
Operating costs	1,013,209	1,008,460
Asset acquisitions	353,718	478,851
Other	848,475	729,146
Recoveries	(829,357)	(884,793)
	10,135,405	9,798,651

COMBINED FINANCIAL STATEMENTS
STATEMENT OF GUARANTEED DEBT AS AT MARCH 31, 1988

Guaranteed debt represents that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government, under the authority of a statute, as to net principal or redemption provisions and accrued interest or dividends outstanding.

	In Thousands	
	1988 Net Outstanding[2]	1987 Net Outstanding[2]
Municipalities and other local governments—	$	$
(1) Guarantees authorized pursuant to the *Municipalities Assistance Act*, sec. 3	1,222	1,698
(2) Guarantees authorized pursuant to the *Municipal Act*, sec. 854 —		
Debentures	11,480	13,096
Subtotal, municipalities and other local governments	12,702	14,794
Government services—		
(3) Guarantees authorized pursuant to the *British Columbia Buildings Corporation Act*, sec. 13[1]—		
Debentures	241,931	265,011
Mortgage	2,296	
(4) Guarantees authorized pursuant to the *System Act*, sec. 20[1] —		
Debentures	22,686	23,575
Subtotal, government services	266,913	288,586
Health and education[4]—		
(5) Guarantees authorized pursuant to the *Educational Institution Capital Finance Act*, sec. 9[1]—		
Debentures	359,563	367,703
(6) Guarantees authorized pursuant to the *Financial Administration Act*, sec. 56—		
Student aid loans	46,187	31,046
Simon Fraser University — Debentures	3,765	3,812
(7) Guarantees authorized pursuant to the *Hospital District Finance Act*, sec. 9[1]—		
Debentures	733,225	714,732
(8) Guarantees authorized pursuant to the *School District Capital Finance Act*, sec. 9[1]—		
Debentures	869,745	878,283
Subtotal, health and education	2,012,485	1,995,576
Economic development—		
(9) Guarantees authorized pursuant to the *Agricultural Credit Act*, sec. 3	1,872	3,049
(10) Guarantees authorized pursuant to the *British Columbia Enterprise Corporation Act*, sec. 6[1]	80,162	29,264
(11) Guarantees authorized pursuant to the *British Columbia Railway Finance Act*, sec. 10[1]—		
Capital leases	24,872	25,490
1st preferred shares — BC Rail Ltd.	200,000	204,625

(12) Guarantees authorized pursuant to the *British Columbia Transit Act*, sec. 22[1]—		
Bonds and debentures	51,905	53,656
Capital leases	225,257	180,820
(13) Guarantees authorized pursuant to the *Development Corporation Act*, sec. 15 —		
Bonds and Notes		93,855
Less: held by the British Columbia Housing and Employment Development Financing Authority		(29,129)
(14) Guarantees authorized pursuant to the *Farm Product Industry Act*, sec. 2	1,750	1,430
(15) Guarantees authorized pursuant to the *Ferry Corporation Act*, sec. 18[1]—		
Notes	36,242	42,427
Capital leases	42,647	43,466
(16) Guarantees authorized pursuant to the *Financial Administration Act*, sec. 56 —		
Vancouver Symphony Orchestra	750	
(17) Indemnities authorized pursuant to the *Financial Administration Act*, sec. 56 —		
W.L.C. Developments Ltd.		4,093
The Terry Fox Medical Research Foundation, *et al*	8,000	8,000
Moli Energy Limited	27,610	20,000
National Homes Limited		43
(18) Guarantees authorized pursuant to the *Housing and Employment Development Financing Act*, secs. 5 and 6[1] —		
Bonds and debentures	1,586	2,226
(19) Guarantees authorized pursuant to the *Petroleum Corporation Act*, secs. 10 and 12[1]		30,000
Subtotal, economic development	702,653	713,315
Utilities—		
(20) Guarantees authorized pursuant to the *Hydro and Power Authority Act*, sec. 44[1]—		
Bonds and debentures	6,882,700	7,476,923
Grand total, all guaranteed debt	9,877,453	10,489,194
Less: Amounts included above held by General Fund[3]	(9,212)	(17,018)
Net total, all guaranteed debt	9,868,241	10,472,176

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[1] *See* Section F of the Public Accounts for details of maturity dates, interest rates and redemption features of the outstanding debt of these Crown agencies.

[2] Net outstanding guaranteed debt includes gross principal debt and accrued interest less sinking fund balances, and represents the total amount of contingent liability of the Government arising from relevant guarantees. Amounts payable in foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the fiscal year-end.

[3] As a result of Government financing and investment policies, $2.1 billion of guaranteed debt is held by Trust Funds actively managed by the Government.

[4] The Government is directly responsible for paying 57.31% to 100% of debt service costs for health and education debt through various grant formulas. In 1987/88 the contributions totalled approximately $274 million or 78.9% of debt service costs.

COMBINED FINANCIAL STATEMENTS
STATEMENT OF INFORMATION REQUIRED UNDER SECTION 8 (2) (b) (iii) OF THE *FINANCIAL ADMINISTRATION ACT* FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	In Thousands			
Ministry	Money Refunded	Assets and Uncollectible Debts Written-off	Debts and Obligations Forgiven	Remissions Made
	$	$	$	$
Advanced Education and Job Training	639			
Attorney General	367	996		
Education	6,927			
Energy, Mines and Petroleum Resources		8		
Environment and Parks	30	3		
Finance and Corporate Relations	1,058	11,157		262
Forests and Lands	313	8,498	50	
Health	268	1,119		2
Municipal Affairs	28			
Transportation and Highways	6,551	24		
Total 1988	16,181	21,805	50	264
Total 1987	5,965	20,807	889	1,719

This statement includes amounts authorized by sections 13, 14, 15 and 16 of the *Financial Administration Act*. Amounts authorized for refund, write-off, forgiveness or remission by other statutes are not shown separately in these financial statements.

COMBINED FINANCIAL STATEMENTS
BUDGET STABILIZATION FUND STATEMENTS
BALANCE SHEET
AS AT MARCH 31, 1988

	In Thousands 1988
ASSETS	$
Due from the General Fund	742,905
LIABILITIES AND NET EQUITY	
Net equity	742,905

STATEMENT OF REVENUE AND EXPENDITURE
FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	In Thousands 1988
REVENUE	$
Transfer from General Fund	717,377
Transfer of Lottery Fund Special Account Balance at March 31, 1988 (*Budget Stabilization Fund Act* (S.B.C. 1988, chap. 8, sec. 6))	25,528
Net Revenue for the Year, to Net Equity	742,905

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1988

Significant Accounting Policies

(a) REPORTING ENTITY

The Budget Stabilization Fund is a Special Fund, for purposes of the *Financial Administration Act*, established pursuant to the *Budget Stabilization Fund Act*. Its purpose is to assist in stabilizing the operating revenues of the Government. General Fund revenue, as specified by the Lieutenant Governor in Council, may be paid into the Fund, and Lottery Fund Special Account money may also be paid into the Fund, if authorized by the Lieutenant Governor in Council. Money may be paid out of the Fund into the General Fund, with the approval of the Lieutenant Governor in Council.

(b) SPECIFIC POLICIES

The Budget Stabilization Fund, as well as any other Special Funds, and the General Fund constitute the Government's Consolidated Revenue Fund, in accordance with section 9 of the *Financial Administration Act*. Therefore, the accounting polices applicable to the Government's Consolidated Revenue Fund, as specified in note 1 to the Government's Combined financial statements, are the policies applicable to the Budget Stabilization Fund.

SECTION C

CONSOLIDATED FINANCIAL STATEMENTS

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Legislative Assembly
Province of British Columbia

AUDITOR GENERAL

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AUDITOR GENERAL'S REPORT

To the Legislative Assembly
of the Province of British Columbia
Parliament Buildings
Victoria, British Columbia

I have examined the consolidated balance sheet of the Government of the Province of British Columbia as at March 31, 1988, and the consolidated statements of revenue and expenditure and changes in cash and temporary investments for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. I have received all the information and explanations I have required.

I report in accordance with section 7 of the *Auditor General Act*. In my opinion, these consolidated financial statements present fairly the financial position of the Government as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended on a consolidated basis in accordance with the stated accounting policies as set out in Note 1 to these financial statements applied on a basis consistent with that of the preceding year.

George L. Morfitt, F.C.A.
Auditor General

Victoria, British Columbia
August 31, 1988

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1988

	Note	In Thousands 1988	 1987
ASSETS		$	$
Cash and temporary investments	2	158,258	219,287
Accounts receivable	3	925,289	900,993
Inventories	4	118,809	105,327
Investments in and amounts due from Crown corporations and agencies	5	1,961,709	1,872,475
Loans, advances and other investments	6	218,924	205,708
Mortgages receivable	7	326,723	303,893
Fiscal Agency loans	8	4,250,436	3,772,028
Other assets	9	186,562	158,173
		8,146,710	**7,537,884**
LIABILITIES AND NET EQUITY (DEFICIENCY)			
Liabilities:			
Accounts payable and accrued liabilities	10	1,244,162	1,158,270
Due to Crown corporations, agencies and funds	11	37,624	213,153
Deferred revenue	12	291,318	245,618
Public debt	13	9,775,837	9,193,772
		11,348,941	10,810,813
Net equity (deficiency)	14	(3,202,231)	(3,272,929)
		8,146,710	**7,537,884**
Fixed Assets	1		
Contingencies and Commitments	15		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Approved on behalf of the Ministry of Finance and Corporate Relations:

P.G. Halkett

P. G. HALKETT
A/Deputy Minister of Finance and
Corporate Relations

D. B. MARSON
Comptroller General

CONSOLIDATED STATEMENT OF REVENUE AND EXPENDITURE FOR THE FISCAL YEAR ENDED MARCH 31, 1988

In Thousands

	1988				1987
	Consolidated Revenue Fund (B 6)	Consolidated Crown Corporations (C 20)	Transfers Between Consolidated Revenue Fund and Crown Corporations	Total	Total
REVENUE	$	$	$	$	$
Taxation	5,744,305			5,744,305	4,861,505
Natural resources	1,222,958			1,222,958	660,415
Other	630,388	932,701	(22,600)	1,540,489	1,828,070
Contributions from Government enterprises	469,795	974,347	(997,367)	446,775	443,226
Contributions from the Federal Government	2,019,931	1,160		2,021,091	1,993,412
Total revenue	10,087,377	1,908,208	(1,019,967)	10,975,618	9,786,628
EXPENDITURE					
Health	2,997,293	1,028,286	(683,878)	3,341,701	3,163,370
Social services	1,610,382		(25,962)	1,584,420	1,491,943
Education	2,203,670	7,191	(12,497)	2,198,364	1,910,271
Transportation and communications	768,079		(33,116)	734,963	942,322
Natural resources, trade and industrial development	721,019	64,224	(63,585)	721,658	801,599
Protection of persons and property	480,842	22,567	(101,885)	401,524	384,120
Aid to local government	402,514	3,943	(2,128)	404,329	392,958
Debt servicing	525,277	407,697	(18,177)	914,797	799,274
General government	177,496	263,020	(59,462)	381,054	388,040
Housing	64,362	49,104	(16,175)	97,291	130,442
Recreation and cultural services	71,230	2,159	(3,102)	70,287	66,038
Other	113,241	71,298		184,539	152,309
Total expenditure	10,135,405	1,919,489	(1,019,967)	11,034,927	10,622,686
Net Operating Revenue (Expenditure) for the Year	(48,028)	(11,281)		(59,309)	(836,058)
NON-OPERATING TRANSACTIONS					
Valuation adjustment of investments in and amounts due from Crown corporations and agencies				2,392	315,132
Increase (Decrease) in Unremitted Equity of Transportation Companies and Commercial Enterprises (C 22)				127,615	(113,642)
Consolidated Net Revenue (Expenditure) for the Year (Note 14)				70,698	(634,568)

The accompanying notes and supplementary statements are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN CASH AND TEMPORARY INVESTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	In Thousands			
	1988		1987	
OPERATING TRANSACTIONS	$		$	
Net revenue (expenditure) for the year		70,698		(634,568)
Non-cash items included in net expenditure				
Accounts receivable (increases)	(24,296)		(95,970)	
Accounts payable increases	85,892		88,502	
Due from Crown corporations (increases)	(89,234)		(401,707)	
Due to Crown corporations, agencies and funds increases (decreases)	(175,529)		5,815	
		(203,167)		(403,360)
Cash items applicable to future operations		3,829		15,326
Cash used for operations		(128,640)		(1,022,602)
INVESTMENT TRANSACTIONS				
Loans, advances and other investments (issues) repayments	(13,216)		18,638	
Mortgages receivable (issues)	(22,830)		(18,500)	
Divestment of (investment in) other assets			(87,269)	
Cash derived from (used for) investments		(36,046)		(87,131)
Total financial requirements		(164,686)		(1,109,733)
FINANCING TRANSACTIONS				
Increase in Public Debt issues	582,065		1,669,620	
Less: used for Fiscal Agency loans	(478,408)		(649,208)	
Cash derived from financing		103,657		1,020,412
Increase (decrease) in cash and temporary investments		(61,029)		(89,321)
Balance — Beginning of Year		219,287		308,608
Balance — End of Year		158,258		219,287

The accompanying notes and supplementary statements are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988

1. Significant Accounting Policies

(a) Reporting Entity

These financial statements include the accounts of the following entities which have been consolidated for reporting purposes:

(i) General Fund — it includes all transactions and balances of the Government not otherwise earmarked by legislative action, including the accounts of the British Columbia Liquor Distribution Branch, the Queen's Printer and the Purchasing Commission, special accounts and other statutory spending authorities;

(ii) Special Funds — these are comprised of all amounts set aside from the General Fund by special disposition of the Legislature;

(iii) Crown Service corporations — these are considered to be extensions of existing Government programs; and

(iv) certain Provincial corporations and agencies — considered to support existing Government programs.

Certain Crown corporations which have been identified as transportation and commercial enterprises, and which are intended to be run on commercial lines, are recorded in these financial statements on a modified equity basis. A schedule of entities recorded on a consolidated or modified equity basis may be found on C 19.

The British Columbia Housing and Employment Development Financing Authority is not recorded in these financial statements because it is designed to finance housing and other capital projects managed by the private sector without any Provincial government funding. Also excluded are health and educational institutions which are legally distinct from Government and whose boards are required to report separately on their stewardship.

The Natural Gas Price Adjustment Fund, administered by British Columbia Petroleum Corporation, has not been consolidated, as the Fund is held for subsequent distribution to natural gas producers.

The Workers' Compensation Board of British Columbia has neither been consolidated nor recorded on an equity basis because it carries on a quasi-insurance activity funded by contributions from employers and it is not intended to be run on commercial lines. Similarily, the activities of the Insurance Corporation of British Columbia have neither been consolidated nor recorded on an equity basis because it operates as a self-sustaining entity.

Since the purpose of the British Columbia Assessment Authority is to establish and maintain uniform provincial assessments, largely for municipalities, it has neither been consolidated nor recorded on an equity basis in these financial statements.

Separate financial statements for entities which have been either consolidated or recorded on an equity basis in these financial statements are included in Section F of the Public Accounts.

(b) Principles of Consolidation

The accounts of the Crown Service and Provincial corporations are consolidated with the General Fund and Special Funds after adjusting them to conform with the accounting policies described below. Inter-company accounts and inter-fund revenue and expenditure transactions are eliminated upon consolidation.

The transportation and commercial enterprises, which maintain their accounts in accordance with accounting principles applicable to commercial entities, are included on a modified equity basis. Under this basis, the Government's investment in these enterprises is initially recorded at cost and adjusted annually to include the net earnings/losses and other net equity changes of the enterprises without adjusting them to conform with the accounting policies described below. Inter-company accounts and transactions are not eliminated. However, profit elements included in such transactions, including certain increases in contributed surplus, are eliminated. Also eliminated is an unamortized gain on the defeasance of British Columbia Railway Company's historic debt.

No adjustments are made on consolidation to those consolidated entities whose fiscal year-ends are not the same as that of the Government, where the effect of adjustment would not be significant to the consolidated operating results.

(c) Basis of Accounting

The accrual basis of accounting is used which, for these consolidated financial statements, is specifically expressed as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

1. Significant Accounting Policies — Continued

Revenue

All revenues are recorded on an accrual basis except where the accruals cannot be determined with a reasonable degree of certainty or where their estimation is impracticable. The exceptions, which normally relate to certain payments to the Province under the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act*, 1977, are recorded on a cash basis.

Expenditure

All expenditures, including the cost of fixed assets, are recorded for goods received and services rendered during the year. Grants and contributions (which include forgivable loans) are recorded as expenditure when disbursement of the funds has been authorized, with the exception that social assistance payments during a given month to meet the needs of recipients in an ensuing month are recorded as expenditure in the period to which the payments apply.

Recoveries of expenditure may be recorded as a credit to the appropriate expenditure account when:

(i) they can be specifically identified with the expenditure transactions and payment has actually been made from an appropriation;
(ii) provision for them has been approved through the Estimates or by Treasury Board; and
(iii) the expenditure to which they relate was incurred in the same fiscal year.

Assets

All assets are recorded to the extent that they represent cash and claims upon outside parties or items held for resale to outside parties as a result of events and transactions prior to the year-end. Rental payments for leases which transfer the benefits and risks incident to the ownership of certain assets, not including special purpose buildings, are reported as expenditures at the dates of inception of the leases.

Liabilities

All liabilities are recorded to the extent that they represent claims payable to outside parties as a result of events and transactions prior to the year-end.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year-end and foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts which specify the rate of exchange. Adjustments to revenue or expenditure transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long-term, fixed term monetary assets and liabilities are reported as a deferred charge and amortized over the remaining terms of the related items on a straight line basis.

Non-monetary assets and liabilities are translated at historical rates of exchange.

(d) SPECIFIC POLICIES

Cash and Temporary Investments

Cash balances are shown after deducting outstanding cheques issued prior to the year-end. Cheques issued subsequent to the year-end relating to the previous year are included in accounts payable.

Temporary investments include short-term investments recorded at the lower of cost or market value.

Temporary investments consist mainly of units in the Province of British Columbia Pooled Investment Portfolios. Units are carried at the lower of cost of acquisition, adjusted by income attributed to the units, or market value. Income attributed to the units represents the unitholders' share of interest earned by the Portfolio and is only realizable by unitholders upon the sale of units.

Accounts Receivable

All amounts receivable (including any trade receivables from Crown corporations and agencies) at the year-end for work performed, goods supplied or services rendered are recorded as revenue of the fiscal year. Provision is made where collectibility is considered doubtful.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

1. Significant Accounting Policies — Continued

Inventories

Inventories comprise items held for resale and are recorded at the lower of cost or net realizable value. Inventories of supplies are charged to the respective programs when the cost is incurred.

Property under development, which will eventually be sold to outside parties, is recorded at the lower of cost or net realizable value.

Investments In and Amounts Due from Crown Corporations and Agencies

Investments in those Crown corporations which have been identified as transportation companies and commercial enterprises and which are intended to be run on commercial lines are recorded on a modified equity basis of accounting. Under this method the Government records its investments (including long-term advances) at cost, adjusted for increases and decreases in the investees' net assets. Since the Government ensures the ongoing activities of these enterprises, full account is taken of losses in the investee companies, even where the cumulative losses exceed the original investment.

Amounts due from Crown corporations and agencies represent amounts other than trade receivables which will be realized in the following year.

Loans, Advances and Other Investments

Loans, advances and other investments are recorded at cost less adjustment for any prolonged impairment in value.

Mortgages Receivable

Mortgages receivable are secured by real estate and are repayable over periods ranging up to thirty years. Provision is made where collectibility is considered doubtful.

Fiscal Agency Loans

Fiscal agency loans consist of loans made to government bodies which have been financed by borrowings made by the Minister of Finance and Corporate Relations, in his capacity as fiscal agent, on behalf of government bodies in accordance with the *Financial Administration Act* (S.B.C. 1981, chap. 15). These loans are recorded at maturity value less unamortized discount and sinking fund balances. Discounts are amortized on an effective yield basis.

Other Assets

Other assets include prepaid program costs. Prepaid program costs represent expenditures made during the fiscal year for work to be performed, goods to be supplied, services to be rendered or contractual obligations to be fulfilled by outside parties in a subsequent fiscal year. These costs also include inventories of operating materials held in the Purchasing Commission and Queen's Printer warehouses pending distributions in a subsequent fiscal year.

Also included in other assets are certain deferred charges.

Fixed Assets

Disbursements for fixed assets are recorded as expenditures in the year the assets are received. Consistent with the reporting of fixed assets as expenditures, highways, bridges, wharves, ferries and ferry landings, buildings, office equipment, furniture, automobiles and Crown land comprised of parks, forests and all other publicly held land in the Province, not including property under development, are recorded at a nominal value of $1.

Accounts Payable and Accrued Liabilities

All amounts payable for work performed, goods supplied, services known to have been rendered or for charges incurred in accordance with the terms of a contract are recorded as part of the expenditure of the fiscal year.

Due to Crown Corporations, Agencies and Funds

Amounts due to Crown corporations, agencies and funds represent liabilities incurred, other than trade payables, which are repayable in the following year.

Deferred Revenue

Deferred revenue represents amounts received or receivable prior to the year-end relating to revenue that will be earned in subsequent fiscal years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

1. Significant Accounting Policies — Continued

Public Debt

Public debt represents direct debt obligations for the purposes of the Government of British Columbia, Fiscal Agency loans and direct debt obligations of consolidated Crown corporations. These obligations are recorded at principal less unamortized discount and sinking fund balances where applicable. Discounts are amortized on an effective yield basis.

Guaranteed Debt

Guaranteed debt represents that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government, under the authority of a statute, as to net principal or redemption provisions and accrued interest or dividends outstanding.

Commitments

Commitments represent future obligations of the consolidated entities for capital contracts and extraordinary program commitments, to the extent of contracts and agreements in place at the year-end, as disclosed in the audited financial statements of the Government and the related Crown corporations and agencies.

2. Cash and Temporary Investments

Included in temporary investments are units in the Province of British Columbia Pooled Investment Portfolios (established pursuant to the *Financial Administration Act*, section 36 (9) (a)) amounting to $227.3 million.

3. Accounts Receivable

	In Thousands	
	1988	1987
	$	$
Taxes receivable	429.616	408.662
Local government bodies	4.904	1.869
Government of Canada	69.034	206.343
Ministerial accounts receivable	298.148	169.391
Accrued interest	51.961	42.392
Crown corporations and agencies	19.306	22.832
	872.969	851.489
Less: Provision for doubtful accounts	(70.781)	(70.193)
	802.188	781.296
Accounts receivable of consolidated Crown corporations:		
British Columbia Buildings Corporation	2.364	1.753
British Columbia Educational Institutions Capital Financing Authority	18.189	17.857
British Columbia Food Exhibitions Ltd.	466	19
British Columbia Health Care Research Foundation	11	43
British Columbia Heritage Trust		53
British Columbia Housing Management Commission	2.826	7.350
B.C. Pavilion Corporation	1.608	
British Columbia Petroleum Corporation	8.168	4.596
British Columbia Regional Hospital Districts Financing Authority	35.136	30.806
British Columbia School Districts Capital Financing Authority	47.957	47.307
British Columbia Systems Corporation	519	47
Creston Valley Wildlife Management Authority Trust Fund	8	6
Discovery Foundation	371	451
Expo 86 Corporation		2.084
Health Facilities Association of British Columbia	135	187
Knowledge Network of the West Communications Authority	158	57
Legal Services Society	255	123
Medical Services Commission of British Columbia	4.625	6.559
Provincial Capital Commission	57	216
Provincial Rental Housing Corporation	115	150
Science Council of British Columbia	133	33
	925.289	900.993

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

4. Inventories

	In Thousands 1988	In Thousands 1987
	$	$
Consolidated Revenue Fund	118,786	105,305
Inventories of consolidated Crown corporations:		
Creston Valley Wildlife Management Authority Trust Fund	14	12
Provincial Capital Commission	9	10
	118,809	105,327

5. Investments In and Amounts Due From Crown Corporations and Agencies

	In Thousands 1988	In Thousands 1987
	$	$
Equity investments — (C 22)	1,959,817	1,870,973
Amount due from Workers' Compensation Board of British Columbia	1,892	1,502
	1,961,709	1,872,475

(a) Definitions

Investments (including long-term advances) in those Crown corporations which have been identified as transportation companies and commercial enterprises are recorded at cost, adjusted for increases and decreases in the investees' net assets.

Amounts due represent amounts, other than trade receivables, which will be realized in the following year.

(b) British Columbia Petroleum Corporation (the Corporation)

Prior to July 1, 1985, the Corporation's retained earnings were recorded as due to the Province because these amounts were considered to have been collected in lieu of other forms of taxation. Subsequent to the *Natural Gas Price Act*, the Corporation is no longer a revenue collecting agent of the Province. Any transfer of funds to the Province will be applied to reduce the amount due from the Corporation.

(c) Pacific Coach Lines Limited (the Company)

Effective March 31, 1984, the operations of Pacific Coach Lines Limited ceased and wind-up of the Company commenced. The wind-up of the Company will be completed following disposal of the remaining real estate assets. The Ministry of Municipal Affairs assumed responsibility for the Company effective September 1986.

6. Loans, Advances and Other Investments

	In Thousands 1988	In Thousands 1987
	$	$
Consolidated Revenue Fund	163,027	154,114
Loans, advances and other investments by consolidated Crown corporations:		
British Columbia Petroleum Corporation	53,241	48,024
Knowledge Network of the West Communications Authority	538	1,369
Creston Valley Wildlife Management Authority Trust Fund	264	
Discovery Foundation	1,854	2,201
	218,924	205,708

7. Mortgages Receivable

	In Thousands 1988	In Thousands 1987
	$	$
Consolidated Revenue Fund	322,719	299,593
Mortgages receivable of consolidated Crown corporations:		
Health Facilities Association of British Columbia	4,004	4,300
	326,723	303,893

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

8. Fiscal Agency Loans

	In Thousands	
	1988	1987
	$	$
British Columbia Assessment Authority	4,331	4,503
British Columbia Educational Institutions Capital Financing Authority	359,959	371,311
British Columbia Enterprise Corporation	88,907	15,491
British Columbia Housing and Employment Development Financing Authority		24,364
British Columbia Hydro and Power Authority	1,218,212	898,602
British Columbia Railway Company	73,939	74,110
British Columbia Regional Hospital Districts Financing Authority	655,512	614,416
British Columbia School Districts Capital Financing Authority	825,862	834,996
British Columbia Transit	835,028	781,844
Capital Project Certificate of Approval Program	90,021	63,339
British Columbia Steamship Company (1975) Ltd.	8,572	3,111
Greater Vancouver Sewerage and Water District	29,095	30,169
Greater Vancouver Water District	19,750	19,287
Improvement Districts	746	
University of British Columbia	40,502	36,485
	4,250,436	3,772,028

9. Other Assets

	In Thousands	
	1988	1987
	$	$
Consolidated Revenue Fund	128,932	95,582
Other assets of consolidated Crown corporations:		
British Columbia Buildings Corporation	2,699	1,428
British Columbia Food Exhibitions Ltd.	3	
British Columbia Housing Management Commission	851	985
B.C. Pavilion Corporation	385	
British Columbia Petroleum Corporation	33,124	40,281
British Columbia Regional Hospital Districts Financing Authority	5,144	4,995
British Columbia School Districts Capital Financing Authority	14,454	13,769
British Columbia Systems Corporation	633	507
Creston Valley Wildlife Management Authority Trust Fund	6	176
Discovery Foundation	39	230
Knowledge Network of the West Communications Authority	166	113
Legal Services Society	73	74
Provincial Capital Commission	35	16
Provincial Rental Housing Corporation	16	15
Science Council of British Columbia	2	2
	186,562	158,173

10. Accounts Payable and Accrued Liabilities

	In Thousands	
	1988	1987
	$	$
Consolidated Revenue Fund	974,329	887,310
Accounts payable of consolidated Crown corporations:		
British Columbia Buildings Corporation	37,452	35,930
British Columbia Educational Institutions Capital Financing Authority	17,176	16,793
British Columbia Food Exhibitions Ltd.	30	3
British Columbia Health Care Research Foundation	12	11
British Columbia Heritage Trust	27	39
British Columbia Housing Management Commission	4,468	5,711
B.C. Pavilion Corporation	3,652	
British Columbia Petroleum Corporation	8,969	6,991
British Columbia Regional Hospital Districts Financing Authority	34,578	33,276
British Columbia School Districts Capital Financing Authority	47,471	46,755
British Columbia Systems Corporation	5,420	15,688

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

10. Accounts Payable and Accrued Liabilities—Continued

	In Thousands	
	1988	1987
	$	$
Creston Valley Wildlife Management Authority Trust Fund	7	9
Discovery Foundation	480	626
Expo 86 Corporation		1,690
Health Facilities Association of British Columbia	54	354
Knowledge Network of the West Communications Authority	540	356
Legal Services Society	4,068	2,723
Medical Services Commission of British Columbia	104,035	103,081
Provincial Capital Commission	113	216
Provincial Rental Housing Corporation	1,170	600
Science Council of British Columbia	111	96
Universities Council		12
	1,244,162	1,158,270

11. Due to Crown Corporations, Agencies and Funds

	In Thousands	
	1988	1987
	$	$
Amounts due to Trust Funds	16,423	183,587
British Columbia Colleges and Institutes	11,923	11,751
British Columbia Enterprise Corporation	1,428	5,775
British Columbia Housing Management Commission	25	
British Columbia Transit		3,584
Simon Fraser University	1,766	2,310
University of British Columbia	4,942	4,961
University of Victoria	1,117	1,185
	37,624	213,153

12. Deferred Revenue

	In Thousands	
	1988	1987
	$	$
Motor vehicle licences and permits	85,322	74,585
Water rentals and recording fees	64,127	54,049
Petroleum, natural gas and mineral leases and fees	23,569	23,567
Canada Assistance Plan	32,839	32,098
Miscellaneous	49,656	28,670
Deferred revenue of consolidated Crown corporations:		
British Columbia Food Exhibitions Ltd.	571	33
British Columbia Housing Management Commission	325	327
B.C. Pavilion Corporation	1,794	
British Columbia Systems Corporation	553	215
Creston Valley Wildlife Management Authority Trust Fund		2
Discovery Foundation	190	208
Knowledge Network of the West Communications Authority	89	137
Medical Services Commission of British Columbia	32,283	31,723
Provincial Capital Commission		4
	291,318	245,618

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

13. Public Debt

	In Thousands				
	1988				1987
		Less			
	Gross Debt	Sinking Funds Accumulated	Debt Held by Consolidated Entities	Net Debt	Net Debt
Debt issued by:	$	$	$	$	$
Consolidated Revenue Fund[1]	7,839,512	(199,547)	(2,082)	7,637,883	7,016,363
Crown corporations:					
British Columbia Buildings Corporation[1]	442,257	(58,568)	(154,693)	228,996	245,024
British Columbia Educational Institutions Capital Financing Authority	445,978	(83,937)	(19,385)	342,656	351,045
British Columbia Petroleum Corporation					30,000
British Columbia Regional Hospital Districts Financing Authority	1,082,268	(360,998)	(27,467)	693,803	675,515
British Columbia School Districts Capital Financing Authority	1,499,487	(659,170)	(36,500)	803,817	804,677
British Columbia Systems Corporation	52,248	(4,985)	(24,570)	22,693	24,826
Discovery Foundation	394			394	
Health Facilities Association of British Columbia	79,004	(18,391)	(60,613)		
Provincial Rental Housing Corporation	69,972		(24,377)	45,595	46,322
	11,511,120	(1,385,596)	(349,687)	9,775,837	9,193,772

Net debt repayment due in the next fiscal year is Canadian $435 million and U.S. $1 million and due within the next five years is Canadian $4,227 million and U.S. $153 million. Details of the various terms of repayment are available in the financial statements of each of the consolidated entities. Refer to Section F of the Public Accounts for Crown corporations' financial statements and to the Schedule of Public Debt in Section B for Combined General and Special Fund details.

[1] The 1988 Gross Debt is net of unamortized discount in the amount of $220 million for the Consolidated Revenue Fund and $6 million for the British Columbia Buildings Corporation.

14. Net Equity (Deficiency)

	In Thousands	
	1988	1987
	$	$
Net equity (deficiency)—beginning of year	(3,272,929)	(2,638,361)
Net revenue (expenditure) for the year	70,698	(634,568)
Net equity (deficiency)—end of year	(3,202,231)	(3,272,929)

Included in the net equity (deficiency) of these financial statements are $743 million set aside by special disposition of the Legislature for Special Funds (1987—$151 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

15. Contingencies and Commitments

(a) Guaranteed debt

Guaranteed debt as at March 31, 1988, totalled $7.6 billion (1987 — $8.1 billion). Included in guaranteed debt is that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government, under the authority of a statute, as to net principal or redemption provisions and accrued interest or dividends outstanding. *See* Statement of Guaranteed Debt on C 24 for details.

(b) Contingent liabilities

(i) Pending litigation

The Government is a defendant in legal actions which may give rise to future liabilities. Because the outcome of the litigation is uncertain, no amount has been recorded in these financial statements.

The Government has a contingent liability in respect of the following summary of cases where the estimated or known claim is or exceeds $100,000:

- a number of airline companies are challenging the Province's authority to tax the fuel used in their operations and to collect sales tax on aircraft; the amount in issue exceeds $30 million;
- claim of $2.5 million for the alleged negligence of ambulance drivers;
- claims of $2 million and $2.5 million have been made regarding motor vehicle accidents;
- claims of $2 million and $2.3 million have been made regarding construction disputes;
- claims of $2.5 million for hospital insurance;
- claims of $35 million against assessments for social services tax;
- various claims totalling $9.2 million against assessments for motive fuel, hotel room, logging, mining, and corporation capital taxes; and
- various legal actions totalling $18.5 million (each between $100,000 and $2 million) representing claims of damages to persons and property or other miscellaneous claims.

(ii) Other contingent liabilities

The Government also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Where indemnities are for explicit quantifiable loans, the amounts are included in the statement of guaranteed debt. Because all other amounts are uncertain, no liability for them has been recorded in these financial statements.

(c) Commitments

At the end of each year there are a number of general commitments outstanding for ongoing programs and operations. Such future expenditures of fully consolidated entities are recorded as a charge in the year in which the work or service is performed. Commitments for capital contracts totalled approximately $150 million (1987 — $148 million), and commitments under leases and other extraordinary programs totalled approximately $808 million (1987 — $717 million).

For those entities reported on the modified equity basis capital contract commitments totalled approximately $299 million (1987 — $260 million) and commitments under leases totalled approximately $101 million (1987 — $111 million).

(d) Superannuation and pension actuarial valuations

(i) The Government has statutory responsibilities in the event of a deficiency existing between the money available for payment of superannuation allowances and the amounts necessary to meet the payment of these allowances equal to:

- the amount of the deficiency in the case of the Public Service Superannuation Fund; and
- the amount specified by the Lieutenant Governor in Council in the case of the College Pension Fund.

(ii) The funds administered by the Superannuation Commission require that periodic actuarial valuations be performed for the purpose of assessing the adequacy of contribution rates and the financial position of the funds. The reporting of the unfunded liability by the actuary indicates that a deficiency may arise in the future if the actions recommended by the actuary are not followed.

The unfunded liabilities as shown in the latest actuarial valuations for the above funds are provided for information purposes:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

15. Commitments and Contingencies — Continued

	In Thousands	
	Public Service Superannuation as at March 31, 1987	College Pension as at August 31, 1985
	$	$
Total actuarial liability	4,480,089	310,126
Less assets:		
Fund	(2,339,150)	(130,113)
Present value of future contributions	(1,684,877)	(119,122)
Unfunded liability	456,062	60,891

See Section G of the Public Accounts for further details of these plans.

16. Trust Funds

Amounts held and administered in trust by the Government at the end of the fiscal year were comprised of the following:

	In Thousands	
	1988	1987
	$	$
Superannuation, Pension and Long-term Disability Funds[1] — administered by the Superannuation Commission	9,479,856	8,387,393
Sinking Funds[1,2] — administered by Provincial Treasury	3,107,878	2,990,284
Investment Funds of Crown Corporations and Agencies — administered by Provincial Treasury	245,275	190,574
Public Trustee and Official Administrators — administered by government officials	255,284	237,549
Supreme and County Court Rules (Suitors' Funds) — administered by the Courts	75,316	73,085
Investment Funds of Workers' Compensation Board[1] — administered by the Workers' Compensation Board	2,718,955	2,546,619
Other Trust Funds — administered by various government officials	60,553	44,746
	15,943,117	14,470,250

Trust funds include amounts held and administered in trust. The Government has no power of appropriation over these funds.

Cash and investments of the Trust Funds are managed or held by Provincial Treasury, Ministry of Finance and Corporate Relations.

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[1] *See* Volume III of the Public Accounts for the latest audited financial statements of Superannuation and Pension Funds, the Workers' Compensation Board and most entitites whose sinking funds are administered by Provincial Treasury.

[2] Sinking funds include investments held by Financing Authorities (which have essentially the same purpose as sinking funds) and the sinking funds relating to Public Debt as disclosed in Note 13 of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1988 — Continued

17. Subsequent Events

(a) Privatization

In October 1987, the Government announced a program to privatize certain of its operations. The following privatization transactions have occurred since March 31, 1988:

- False Creek lands were sold by British Columbia Enterprise Corporation on April 27, 1988, for $145,010,000. This amount was distributed to the Province as the shareholder pursuant to a resolution of the Directors by payment of $50,000,000 cash and assignment of financial instruments. This represented a $5,352,140 dividend to the Privatization Benefits Fund and $139,657,860 return of contributed surplus to the Province.
- various B.C. Hydro assets have been sold including the mainland gas division sale for $785 million announced on July 20, 1988. Upon finalization, the gain on the sale will be paid over to the Province in the form of a dividend to the Privatization Benefits Fund.
- the Government is entering into agreements to dispose of certain assets and undertakings related to existing highways maintenance operations. Proceeds from the sale of fixed assets of the Government will represent revenue to the Province while the ongoing maintenance costs will be restricted, in future, to contract payments rather a combination of salaries, operating costs and fixed assets acquisitions.

(b) Knowledge Network of the West Communications Authority

Pursuant to the *Open Learning Agency Act* (S.B.C. 1987 chap. 62, sec. 17 (2)) and Order in Council 25-1988 this corporation has been dissolved and all property and rights transferred to and vested in the Open Learning Agency on April 1, 1988. The new agency is to use open learning methods to provide educational programs and services and will develop and promote open learning education. A portion of its programs and services will be those of the former Knowledge Network.

(c) Medical Services Commission of British Columbia (the Commission)

Until April 1, 1988, all premiums under the Medical Services Plan (the Plan) were remitted to the Commission, with any deficiency in the funds to meet the necessary expenditures to be paid out of the Consolidated Revenue Fund. After that date, amendments to the Medical Service Act Regulations, approved by Order in Council dated March 25, 1988, require that premiums under the Medical Services Plan now be remitted to the Minister of Finance and Corporate Relations. Money is now to be paid out of the Consolidated Revenue Fund of the Province of British Columbia to meet all the needed expenditures for the operation of the Plan.

18. Comparatives

Certain of the comparative figures for the previous year have been reclassified to conform with the current year's presentation. These reclassifications have had no effect on the operating results or fund balances as previously reported.

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF ENTITIES RECORDED ON A CONSOLIDATED OR MODIFIED EQUITY BASIS
FOR THE FISCAL YEAR ENDED MARCH 31, 1988

CROWN SERVICE CORPORATIONS
RECORDED ON CONSOLIDATED BASIS

British Columbia Buildings Corporation
British Columbia Systems Corporation

PROVINCIAL CORPORATIONS AND AGENCIES
RECORDED ON CONSOLIDATED BASIS

British Columbia Educational Institutions Capital Financing Authority
British Columbia Food Exhibitions Ltd.
British Columbia Health Care Research Foundation
British Columbia Heritage Trust
British Columbia Housing Management Commission
B.C. Pavilion Corporation
British Columbia Petroleum Corporation (reported by Petroleum Corporation Fund)
British Columbia Regional Hospital Districts Financing Authority
British Columbia School Districts Capital Financing Authority
Creston Valley Wildlife Management Authority Trust Fund
Discovery Foundation
Expo 86 Corporation
Health Facilities Association of British Columbia
Knowledge Network of the West Communications Authority
Legal Services Society
Medical Services Commission of British Columbia
Provincial Capital Commission
Provincial Rental Housing Corporation
The Science Council of British Columbia and Secretariat on Science, Research and Development (Science Council of British Columbia)

TRANSPORTATION COMPANIES AND COMMERCIAL ENTERPRISES
RECORDED ON MODIFIED EQUITY BASIS

British Columbia Enterprise Corporation
British Columbia Ferry Corporation
British Columbia Hydro and Power Authority
British Columbia Lottery Corporation
British Columbia Railway Company
British Columbia Steamship Company (1975) Ltd.
British Columbia Transit
Housing Corporation of British Columbia
Pacific Coach Lines Limited

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF OPERATING RESULTS OF CONSOLIDATED CROWN CORPORATIONS FOR THE FISCAL YEAR ENDED MARCH 31, 1988[1]

In Thousands

	1988				1987
	Earnings (losses) per Consolidated Crown Corporations' Financial Statements	*Less Accounting Policy Adjustments*[2]		Net Earnings (losses) for the Year	Net Earnings (losses) for the Year
		Fixed Assets	Other		
	$	$	$	$	$
Crown Service Corporations:					
British Columbia Buildings Corporation	22,965	20,646	22,965	(20,646)	(5,007)
British Columbia Systems Corporation	4,231	(4,061)		8,292	(4,866)
	27,196	16,585	22,965	(12,354)	(9,873)
Provincial Corporations and Agencies:					
British Columbia Food Exhibitions Ltd.		(14)	(80)	94	91
British Columbia Health Care Research Foundation	(202)		(764)	562	596
British Columbia Heritage Trust	329	154		175	73
British Columbia Housing Management Commission	534	149		385	823
B.C. Pavilion Corporation		(3,111)	2,133	978	12,389
British Columbia Petroleum Corporation	5,827	(55)		5,882	2,104
British Columbia Place Ltd.					(19,257)
Creston Valley Wildlife Management Authority Trust Fund	53			53	38
Discovery Foundation	(1,769)	(495)	(825)	(449)	(4,725)
Expo 86 Corporation	(18,616)			(18,616)	421,686
Health Facilities Association of British Columbia		(11,554)	608	10,946	5,086
Knowledge Network of the West Communications Authority	(476)	277		(753)	(66)
Legal Services Society	623			623	1,782
Provincial Capital Commission	(377)			(377)	304
Provincial Rental Housing Corporation		(1,334)		1,334	1,932
Science Council of British Columbia	236			236	237
Universities Council					(111)
	(13,838)	(15,983)	1,072	1,073	422,982
Total	13,358	602	24,037	(11,281)	413,109

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[1] The British Columbia Educational Institutions Capital Financing Authority, British Columbia Regional Hospital Districts Financing Authority, British Columbia School Districts Capital Financing Authority and the Medical Services Commission of British Columbia do not generate any earnings or losses and are, therefore, not shown on this schedule.

[2] Accounting policy adjustments are made so that the net earnings (losses) of consolidated entities are calculated in accordance with the accounting policies adopted by the Government as described in Note 1, Basis of Accounting, C 8.

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF EQUITY IN COMMERCIAL ENTERPRISES
FOR THE FISCAL YEAR ENDED MARCH 31, 1988

	In Thousands 1988				
	British Columbia Hydro and Power Authority $	British Columbia Lottery Corporation $	Housing Corporation of British Columbia $	British Columbia Enterprise Corporation $	**Total $**
Earnings (losses) for the year	55,000	166,586	405	2,448	**224,439**
Unremitted earnings (losses) — beginning of year	540,000		2,009		**542,009**
Transfer from (to) Government		(166,586)			**(166,586)**
Unremitted earnings (losses) — end of year	595,000		2,414	2,448	**599,862**
Equity contributed and transferred	(20,193)		1,902		**(18,291)**
Unremitted equity — end of year	574,807		4,316	2,448	**581,571**
Recorded by the Government:					
Shares and other investments				305,020	**305,020**
Amounts Due	8,087			19,733	**27,820**
Total Equity	582,894		4,316	327,201	**914,411**

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF EQUITY IN TRANSPORTATION COMPANIES AND COMMERCIAL ENTERPRISES
FOR THE FISCAL YEAR ENDED MARCH 31, 1988[1]

In Thousands

	1988								1987
	British Columbia Ferry Corporation	British Columbia Railway Company	British Columbia Steamship Company (1975) Ltd.	British Columbia Transit	Pacific Coach Lines Limited	**Transportation Companies Total**	**Commercial Enterprises (C 21)**	**Transportation Companies and Commercial Enterprises Total**	**Transportation Companies and Commercial Enterprises Total**
	$	$	$	$	$	**$**	**$**	**$**	**$**
Earnings (losses) for the year before Provincial grants	(55,438)	43,610	(746)	(158,929)	69	**(171,434)**	**224,439**	**53,005**	**(87,278)**
Provincial grants	57,000	10,645	1,936	159,221		**228,802**		**228,802**	**230,583**
Earnings (losses) for the year before extraordinary items	1,562	54,255	1,190	292	69	**57,368**	**224,439**	**281,807**	**143,305**
Extraordinary items					624	**624**		**624**	**1,951**
Net earnings (losses) for the year	1,562	54,255	1,190	292	693	**57,992**	**224,439**	**282,431**	**145,256**
Unremitted earnings (losses) — beginning of year	(51,916)	84,059	(9,534)	4,545	(1,922)	**25,232**	**542,009**	**567,241**	**416,418**
Transfer from (to) Government							**(166,586)**	**(166,586)**	**(159,515)**
Other changes to net equity		(10,308)[3]		(2,285)	(1,175)	**(13,768)**		**(13,768)**	**110,464**
Unremitted earnings (losses) — end of year	(50,354)	128,006	(8,344)	2,552	(2,404)	**69,456**	**599,862**	**669,318**	**512,623**
Equity contributed and transferred	189,863	376,294	17,393	104,827	2,491	**690,868**	**(18,291)**	**672,577**	**701,657**
Unremitted equity — end of year[2]	139,509	504,300	9,049	107,379	87	**760,324**	**581,571**	**1,341,895**	**1,214,280**
Recorded by the Government:									
Shares and other investments	6,851	257,689				**264,540**	**305,020**	**569,560**	**577,613**
Amounts Due		20,542				**20,542**	**27,820**	**48,362**	**79,080**
Total Equity	146,360	782,531	9,049	107,379	87	**1,045,406**	**914,411**	**1,959,817**	**1,870,973**

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[1] This statement should be read in conjunction with Note 5 to the Consolidated Financial Statements.

[2] The increase in unremitted equity from $1,214,280,000 in 1986/87 to $1,341,895,000 in 1987/88 of $127,615,000 is comprised of the net increase in unremitted earnings of $156,695,000 and the net decrease in equity contributed and transferred of $29,080,000. (Refer to C 6).

[3] Dividend paid to the Government.

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT TO RECONCILE CORPORATE EQUITY TO EQUITY OF PROVINCE
AS AT MARCH 31, 1988[1]

	In Thousands				
	British Columbia Hydro and Power Authority	British Columbia Ferry Corporation	British Columbia Railway Company	British Columbia Steamship Company (1975) Ltd.	British Columbia Transit
	$	$	$	$	$
Share capital		6,851	257,688		
Contributed surplus	683,000	250,401	510,716	17,594	209,387
Retained earnings (deficit)	595,000	(50,354)	128,006	(8,345)	2,552
Corporate equity	1,278,000	206,898	896,410	9,249	211,939
Unamortized asset appraisal increases		(60,538)			(104,560)
Profit on transactions between consolidated entities	(5,200)				
Contributed and other surpluses not recognized in Government equity until taken into operating results of corporation	(683,000)			(200)	
Unamortized gain on defeasance of entity debt not recognized in Government equity	(14,993)		(134,421)		
Amounts due	8,087		20,542		
Equity of Province	582,894	146,360	782,531	9,049	107,379

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[1] For all other entities on C 21 and C 22, corporate equity and equity of the Province are the same.

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF GUARANTEED DEBT AS AT MARCH 31, 1988

Guaranteed debt represents that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations, which has been explicitly guaranteed or indemnified by the Government, under the authority of a statute, as to net principal or redemption provisions and accrued interest or dividends outstanding.

	In Thousands	
	1988 Net Outstanding[2]	1987 Net Outstanding[2]
Municipalities and other local governments —	$	$
(1) Guarantees authorized pursuant to the *Municipalities Assistance Act*, sec. 3	1,222	1,698
(2) Guarantees authorized pursuant to the *Municipal Act*, sec. 854 —		
Debentures	11,480	13,096
Subtotal, municipalities and other local governments	12,702	14,794
Health and education —		
(3) Guarantees authorized pursuant to the *Financial Administration Act*, sec. 56 —		
Student aid loans	46,187	31,046
Simon Fraser University — Debentures	3,765	3,812
Subtotal, health and education	49,952	34,858
Economic development—		
(4) Guarantees authorized pursuant to the *Agricultural Credit Act*, sec. 3	1,872	3,049
(5) Guarantees authorized pursuant to the *British Columbia Enterprise Corporation Act*, sec. 6[1]	80,162	29,264
(6) Guarantees authorized pursuant to the *British Columbia Railway Finance Act*, sec. 10[1] —		
Capital leases	24,872	25,490
1st preferred shares — BC Rail Ltd.	200,000	204,625
(7) Guarantees authorized pursuant to the *British Columbia Transit Act*, sec. 22[1] —		
Bonds and debentures	51,905	53,656
Capital leases	225,257	180,820
(8) Guarantees authorized pursuant to the *Development Corporation Act*, sec. 15 —		
Bonds and Notes		93,855
Less: held by the British Columbia Housing and Employment Development Financing Authority		(29,129)
(9) Guarantees authorized pursuant to the *Farm Product Industry Act*, sec. 2	1,750	1,430
(10) Guarantees authorized pursuant to the *Ferry Corporation Act*, sec. 18[1] —		
Notes	36,242	42,427
Capital leases	42,647	43,466
(11) Guarantees authorized pursuant to the *Financial Administration Act*, sec. 56 —		
Vancouver Symphony Orchestra	750	

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF GUARANTEED DEBT AS AT MARCH 31, 1988 — Continued

	In Thousands	
	1988 Net Outstanding[2]	1987 Net Outstanding[2]
	$	$
(12) Indemnities authorized pursuant to the *Financial Administration Act*, sec. 56 —		
W.L.C. Developments Ltd.		4,093
The Terry Fox Medical Research Foundation, *et al*	8,000	8,000
Moli Energy Limited	27,610	20,000
National Homes Limited		43
(13) Guarantees authorized pursuant to the *Housing and Employment Development Financing Act*, secs. 5 and 6[1] —		
Bonds and debentures	1,586	2,226
Subtotal, economic development	702,653	683,315
Utilities —		
(14) Guarantees authorized pursuant to the *Hydro and Power Authority Act*, sec. 44[1] —		
Bonds and debentures	6,882,700	7,476,923
Grand total, all guaranteed debt	7,648,007	8,209,890
Less: Amounts included above held as investments within the Consolidated Entity[3]	(75,917)	(72,798)
Net total, all guaranteed debt	7,572,090	8,137,092

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[1] *See* Section F of the Public Accounts for details of maturity dates, interest rates and redemption features of the outstanding debt of these Crown agencies.

[2] Net outstanding guaranteed debt includes gross principal debt and accrued interest less sinking fund balances, and represents the total amount of contingent liability of the Province arising from relevant guarantees. Amounts payable in foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the fiscal year-end.

[3] As a result of Government financing and investment policies, $2 billion of guaranteed debt is held by Trust Funds actively managed by the Government.